Audit Report on Financial Statements
issued by an Independent Auditor

DURO FELGUERA, S.A. AND SUBSIDIARIES
Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2019
(Free translation from the original in Spanish)

Building a better
working world

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AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 42)

To the shareholders of DURO FELGUERA, S.A.:

Audit report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of DURO FELGUERA, S.A. (the parent company) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2019 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in *the Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw your attention to the matter described in Note 2.1 of the accompanying consolidated financial statements, which explains that meeting the Group's cash flow plan for the fifteen-month period following 2019 will require, among other things, funds from the sale of non-strategic assets for an amount ranging from 10 to 15 million euros, obtaining waivers from creditor banks in relation to the non-receipt of the loan referred to Note 11 that is currently in an early repayment scenario, new guarantees or similar instruments for portfolio projects and new contracts amounting to 40 million euros, as well as the materialization of the assumptions made by the Parent's directors with regard to ongoing projects and matters under dispute, all of which must be considered in the context of the health crisis described in Note 41 to the accompanying consolidated financial statements.

In addition, as explained in the aforementioned note, the Group is taking several measures to comply with the aforementioned cash flow plan. Among these, it is actively engaged in negotiations to resolve the refinancing agreement with creditor banks to improve the Group's equity position and agree on alternative bilateral guarantee and other similar facilities. Moreover, as explained in the aforementioned note, the Group is negotiating with customers and suppliers to improve its cash and equity position and is in the process of seeking industrial investors.

These circumstances indicate that a material uncertainty exists that may cast significant doubts on the Group's capacity to continue as a going concern. Our opinion was not modified with respect to this matter.

Emphasis-of-matter paragraphs

We draw your attention to Note 36 of the accompanying consolidated financial statements, which explains that the subsidiary Duro Felguera Australia Pty Ltd. repaid approximately 60.1 million euros relating to a loan granted to Duro Felguera, S.A. in previous years. As indicated in the aforementioned note, the Parent's directors have assessed the risk that reintegration actions could be brought against Duro Felguera, S.A. and, despite the existing uncertainties, based on the opinions of their legal advisors, have determined that the probability of Duro Felguera, S.A. having to repay the amounts repatriated, in full or in part, is less than 50%. Our opinion was not modified with respect to this matter.

We draw your attention to the matter described in Note 36 of the accompanying consolidated financial statements, which describes the Group's ongoing litigation in connection with the Jebel Ali project and has resulted in the client executing guarantees amounting to 47.8 million euros. As explained in the aforementioned note, despite the uncertainties inherent in the process, based on the information currently available, the Group does not expect the final outcome of this contingency to have a material impact on its equity or financial position and, accordingly, it has not made any additional provision for this contingency. Our opinion was not modified with respect to this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter discussed under "Material uncertainty related to going concern," we determined that the circumstances described below are key audit matters that would require disclosure in our audit report.

Recognition of income from construction contracts

Description	As explained in Notes 2.24.c) and 4.h) to the accompanying consolidated financial statements, revenue from construction contracts are recognized using the stage of completion method, in conformity with the applicable regulatory framework for financial reporting.

When applying the stage of completion method, the Group's directors use significant estimates related to the total necessary costs to execute the contract, When applying the stage of completion method, the Group's directors use significant estimates related to the total necessary costs to execute the contract, as well as the amount of claims in negotiation or changes in the scope of the project, which are included, where applicable, as additional contract revenue. The estimated amount associated with these costs is significant and is likewise based on complex, highly subjective judgments. Income, total contract costs, and recognition of revenue may significantly differ from initial estimates, due to new or additional information on overruns and changes in the scope over the term of the project.

Given the uncertainty underlying the process of making the accounting estimates used in recognizing this revenue and the materiality of the related amounts, we determined this to be a key audit matter

Our response

In relation to this matter, our audit procedures included, among others, the following:

- We gained an understanding of the processes established by the Group's directors for recognizing revenue derived from construction contracts, including evaluation of the design and implementation of relevant controls and their operational effectiveness.
- Performing substantive tests, selecting a sample of projects based on quantitative and qualitative factors to assess the reasonableness of the Group's hypotheses and assumptions, for which we met with technical personnel, particularly construction managers and those in charge of the main projects examined.
- For selected projects, we obtained and read contracts to understand the most relevant clauses and their implications, in addition to examining budgets as well as follow-up and execution reports.
- We analyzed the performance of margins in terms of both variations in selling price and total budgeted costs
- We obtained evidence of technical approvals and the statement of economic negotiations related to changes in the contracts and claims being negotiated with customers.
- Reviewing the disclosures included in the notes to the accompanying consolidated financial statements in conformity with the regulatory framework for financial reporting applicable to the Group.

Estimation of impairment losses for the main past-due receivables

Description

As explained in Note 12 to the consolidated financial statements, at December 31, 2019, "Trade and other receivables," net of impairment losses, amounted to 69 million and 46 million euros, respectively. As explained in the aforementioned notes, of these amounts, the main past-due receivables pertain to Termocentro (Venezuela), Tuticorin (India), and Matheu y Luján (Argentina).

The estimation of impairment loss on these assets requires significant judgment on the part of Management, the relevant principles and criteria of which are provided in Notes 4 and 12 to the accompanying consolidated financial statements. The identification of impaired credit exposures and the determination of recoverable amounts are processes subject to the uncertainty inherent in using hypotheses and estimates.

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Therefore, estimation of impairment loss allowances for the primary past-due receivables was considered a key audit matter.

Our response

The audit procedures carried out on past-due receivables were the following:

- We carried out an itemized review of past-due receivables, analyzing the reasonableness of the hypotheses used by Company´s directors to identify and quantify impairment.
- Obtaining confirmation of ongoing litigation from the Group's external and internal legal advisors, which includes their assessment of the risk related to evaluating the recoverability of the India and Argentina projects' past-due receivables, as explained in Note 36 to the accompanying consolidated financial statements. Analyzing, with the involvement of our legal specialists, the reasonableness of the assumptions and hypotheses used by the Group to assess the recoverability of the aforementioned past-due.
- With regard to the Termocentro project in Venezuela, we obtained confirmation of the balance owed by the customer Corpoelec (previously called C.A. Electricidad de Caracas) and we reviewed the reasonableness of the principal hypotheses used by the Group directors, which were based primarily on trends in the quoted prices of Venezuelan sovereign bonds as a market reference, with a view to verifying the reasonableness of the impairment loss recognized in the accompanying consolidated financial statements.
- Reviewing the disclosures included in the notes to the accompanying consolidated financial statements in conformity with the regulatory framework for financial reporting applicable to the Group.

Lawsuit filed by the Special Prosecution Office for Corruption and Organized Crime

Description

We draw your attention to the matter described in Note 36 to the accompanying consolidated financial statements, which states that on December 14, 2017, the parent company disclosed the receipt of the ruling from Madrid Central Court of Instruction No. 2, allowing the lawsuit filed against DURO FELGUERA, S.A. and others by the Special Prosecution Office for Corruption and Organized Crime, concerning a possible alleged case of corruption of a foreign civil servant or authority, in addition to an alleged money laundering offense in connection with a payment totaling approximately 80.6 million US dollars. Both offenses relate to a contract signed by the Company for the construction and start-up of a combined cycle plant in Venezuela.

As likewise explained in the aforementioned note, it is not possible to determine the likelihood or extent of the possible consequences, which will depend on the outcome of the criminal investigation.

Generally, these proceedings are subject to uncertainty and can take a considerable period of time to resolve, requiring complex estimates on the part of management. Consequently, we determined this to be a key audit matter.

Our response

In relation to this matter, our audit procedures included the following:

- Briefing on the current status of litigations via meetings with Management.
- We obtained and analyzed, with the involvement of our legal specialists, the legal opinion prepared by the attorney engaged by the parent company.

- We reviewed the disclosures included in the notes to the consolidated financial statements in conformity with the regulatory framework for financial reporting applicable to the Group.

Duro Felguera Australia Pty Ltd. – Transactional agreement with SC&T Corporation

Description	As explained in Note 36 to the consolidated financial statements, the investee Duro Felguera Australia, Pty Ltd. entered into arbitration proceedings with SC&T Corporation through the Singapore International Court of Arbitration (SIAC) regarding the Roy Hill project. The Singapore International Court of Arbitration (SIAC) issued its partial arbitral award and its award of costs and interest on March 1, and July 9, 2019, respectively. Subsequently, on September 2019, both parties signed a transactional agreement by virtue of which they agreed to cease all disputes between Duro Felguera Australia Pty Ltd. and SC&T Corporation, in exchange for compensation paid by the latter, which was paid in full on September 2019, except for 6 million euros, and the extension of a guarantee from the Parent to SC&T Corporation. The related accounting effects have been recorded in the accompanying consolidated financial statements as described in Note 36. Given the significance of the aforementioned agreement, we determined the analysis and recognition of the related accounting effects to be a key audit matter.
Our response	Our audit procedures in relation to this matter included: ▶ Obtaining and analyzing the arbitral decisions issued on March 1 and July 9, 2019 by the Singapore International Court of Arbitration (SIAC) and the transactional agreement signed between Duro Felguera Australia Pty Ltd. and SC&T Corporation, as well as reviewing the related accounting effects. ▶ Analyzing, with the involvement of our legal specialists, the reasonableness of the recorded third-party liabilities, after evaluating the related risks based on the updated valuation carried out by the Group's external legal advisors. ▶ Reviewing the disclosures included in the notes to the accompanying consolidated financial statements in conformity with the applicable regulatory financial reporting framework.

Other information: consolidated management report

Other information refers exclusively to the 2019 consolidated management report, the preparation of which is the responsibility of the parent´s company´s directors and is not an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

a) A specific level applicable to the non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report, or where appropriate, that the corresponding reference to the separate report on non-financial information has been incorporated in the form provided for in the regulation, and if not, disclose this fact.

b) A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on our knowledge of the Group obtained during the audit, and limited to the information gained through audit evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided in the consolidated management report, and that the remaining the information contained therein is consistent with that provided in the 2019 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the parent company´s directors and the audit committee for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the parent company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our pinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the parent company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee of the parent company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Additional report to the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee on May 22, 2020.

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Term of engagement

We were appointed as the Group's auditors for 2019 by the shareholders in their general meeting held on May 31, 2019.

Previously, we were appointed as auditors by the shareholders for three years and we have been carrying out the Audit of the financial statements continuously since the financial year beginning on January 1, 2016.

ERNST & YOUNG, S.L.
(Registered in the Official Register of Auditors under No. S0530)

(Signed in the original Spanish version)

José Enrique Quijada Casillas
(Registered in the Official Register of Auditors under No. 15310)

May 22, 2020

DURO FELGUERA, S.A. AND SUBSIDIARIES

Consolidated Financial Statements and Consolidated Management Report for the year ended 31 December 2019

DURO FELGUERA, S.A. AND SUBSIDIARIES

CONTENTS OF THE 2019 CONSOLIDATED FINANCIAL STATEMENTS

Note

CONTENTS OF THE 2019 CONSOLIDATED FINANCIAL STATEMENTS

DURO FELGUERA, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2019 AND 2018
(€ thousand)

ASSETS	Note	At 31 December 2019	2018
Property, plant and equipment	**7**	37,187	40,263
Investment properties	**8**	27,327	33,590
Intangible assets	**9**	14,469	16,727
Investments in associates	**10**	20	4,595
Available-for-sale financial assets	**11**	5,477	4,451
Loans and other receivables	**11-12**	262	982
Deferred tax assets	**24**	30,306	41,643
NON-CURRENT ASSETS		**115,048**	**142,251**
Non-current assets held for sale	**6**	-	4,254
Inventories	**14**	9,933	12,319
Trade and other receivables	**11-12**	233,370	395,711
Financial receivables	**11**	492	3
Current tax assets		7	1,237
Cash and cash equivalents	**11-15**	122,908	103,097
CURRENT ASSETS		**366,710**	**516,621**
TOTAL ASSETS		**481,758**	**658,872**

The accompanying notes 1 to 41 are an integral part of these consolidated financial statements.

DURO FELGUERA, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2019 AND 2018
(€ thousand)

		At 31 December	
EQUITY AND LIABILITIES	**Note**	**2019**	**2018**
Share capital	**16**	4,800	48,000
Share premium	**16**	-	79,152
Accumulated exchange differences		(388)	(9,829)
Convertible bonds	**16**	8,093	8,093
Retained earnings and other reserves	**18**	19,531	(80,409)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS		**32,036**	**45,007**
Non-controlling interests	**20**	(16,451)	(36,489)
EQUITY		**15,585**	**8,518**
DEFERRED INCOME	**21**	**3,846**	**4,260**
Borrowings	**11-22**	89,907	99,881
Deferred tax liabilities	**24**	30,184	42,106
Employee benefits	**25**	1,328	1,517
Provisions for other liabilities and charges	**26**	12	23,174
NON-CURRENT LIABILITIES		**121,431**	**166,678**
Liabilities associated with non-current assets held for sale	**6**	-	-
Borrowings	**11-22**	10,020	6,695
Trade and other payables	**11-23**	260,408	365,384
Current tax liabilities		2,452	3,658
Employee benefits	**25**	4,669	7,404
Provisions for other liabilities and charges	**26**	63,347	96,275
CURRENT LIABILITIES		**340,896**	**479,416**
TOTAL EQUITY AND LIABILITIES		**481,758**	**658,872**

The accompanying notes 1 to 41 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018
(€ thousand)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	**27**	392,909	421,325
Changes in inventories of finished goods and work in progress		361	(621)
Cost of sales		(223,390)	(288,672)
Gross profit		**169,880**	**132,032**
Employee benefits expense	**28**	(89,515)	(102,476)
Amortisation and depreciation	**7-8-9**	(6,547)	(8,052)
Operating expenses	**29**	(93,169)	(102,572)
Other gains/(losses) net	**30**	19,868	(50,692)
Operating profit/(loss)		**517**	**(131,760)**
Net finance income/(cost)	**31**	5,238	213,672
Impairment of financial instruments		(1)	(2,843)
Share of loss/(profit) of associates	**10**	(1,075)	(177)
Profit/(loss) before tax		**4,679**	**78,892**
Income tax expense	**32**	263	(3,700)
Profit/(loss) for the year from continuing operations		**4,942**	**75,192**
Attributable to:			
Shareholders of the company		1,388	99,430
Non-controlling interests	**20**	3,554	(24,238)
		4,942	**75,192**
Earnings/(loss) per share for the year from continuing operations attributable to shareholders of the company (€ per share)			
- Basic	**33**	0.0006	0.05
- Diluted	**33**	0.0006	0.04

The accompanying notes 1 to 41 are an integral part of these consolidated financial statements.

DURO FELGUERA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018
(€ thousand)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Profit/(loss) for the year		**4,942**	**75,192**
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		1,026	(825)
Revaluation/(reversal of revaluation) of property, plant and equipment and intangible assets		(4,718)	(2,134)
Currency translation differences		(877)	(2,489)
Other comprehensive income not to be reclassified to profit or loss		-	-
Income tax relating to items that will not be reclassified		1,399	1,156
Items that may be reclassified to profit or loss			
Changes in the fair value available-for-sale financial assets		-	-
Cash flow hedges		-	(1,050)
Currency translation differences		11,834	2,835
Other income and expenses that may be reclassified to profit or loss		(8,044)	(26,632)
Income tax relating to items that may be reclassified to profit or loss	**24**	(257)	469
Other comprehensive income for the year, net of tax		**363**	**(28,670)**
Total comprehensive income for the year		**5,305**	**46,522**
Attributable to:			
- Shareholders of the company		16	70,565
- Non-controlling interests		5,289	(24,043)
		5,305	**46,522**
Total comprehensive income for the year attributable to shareholders of the Company from:			
- Continuing operations		16	70,565

The accompanying notes 1 to 41 are an integral part of these consolidated financial statements.

DURO FELGUERA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018 (€ thousand)

		Equity attributable to owners of the parent							
	Note	Capital	Share premium and reserves	Treasury shares	Profit/(loss) attributable to the parent	Other equity instruments	Translation differences and other	Non-controlling interests	Total equity
Balance at 1 January 2018		**80,000**	**137,802**	**(87,719)**	**(254,496)**	**-**	**(26,626)**	**(13,807)**	**(164,846)**
Profit/(loss) for the year		-	-	-	99,430	-	-	(24,238)	75,192
Other comprehensive income		-	(1,601)	-	-	-	(27,264)	195	(28,670)
Total comprehensive income		**-**	**(1,601)**	**-**	**99,430**	**-**	**(27,264)**	**(24,043)**	**46,522**
Capital increases/(reductions)	16	(24,000)	149,712	-	-	-	-	-	125,712
Cancellation of treasury shares	16	(8,000)	(79,719)	87,719	-	-	-	-	-
Conversion of financial liabilities into convertible bonds	22	-	-	-	-	8,093	-	-	8,093
Distribution of dividends		-	-	-	-	-	-	(112)	(112)
Other transactions with equity holders or owners		-	(197)	-	-	-	-	907	710
Transfers between equity items		-	(256,434)	-	254,496	-	1,938	-	-
Other changes (1)		-	(8,127)	-	-	-	-	566	(7,561)
Balance at 31 December 2018		**48,000**	**(58,564)**	**-**	**99,430**	**8,093**	**(51,952)**	**(36,489)**	**8,518**
Balance at 1 January 2019		**48,000**	**(58,564)**	**-**	**99,430**	**8,093**	**(51,952)**	**(36,489)**	**8,518**
Profit/(loss) for the year		-	-	-	1,388	-	-	3,554	4,942
Other comprehensive income		-	(3,538)	-	-	-	2,166	1,735	363
Total comprehensive income		**-**	**(3,538)**	**-**	**1,388**	**-**	**2,166**	**5,289**	**5,305**
Capital increases/(reductions)	16	(43,200)	43,200	-	-	-	-	-	-
Distribution of dividends		-	-	-	-	-	-	(15)	(15)
Other transactions with equity holders or owners		-	-	-	-	-	-	-	-
Transfers between equity items		-	99,430	-	(99,430)	-	-	-	-
Other changes (2)		-	(12,987)	-	-	-	-	14,764	1,777
Balance at 31 December 2019		**4,800**	**67,541**	**-**	**1,388**	**8,093**	**(49,786)**	**(16,451)**	**15,585**

(1) Includes mainly capital increase costs (Note 16).
(2) The change relates to the departure of non-controlling interests in subsidiary Felguera IHI, S.A.

The accompanying notes 1 to 41 are an integral part of these consolidated financial statements.

DURO FELGUERA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018
(€ thousand)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Cash flows from operating activities			
Cash generated from operations	**35**	7,366	(120,138)
Interest paid	**31**	(9,638)	(10,689)
Income tax paid		(1,688)	-
Net cash generated from/(used in) operating activities		**(3,960)**	**(130,827)**
Cash flows from investing activities			
Purchases of property, plant and equipment and investment properties	**7-8**	(716)	(671)
Proceeds from sale of property, plant and equipment and investment properties	**7-8**	12,826	27,059
Purchases of intangible assets	**9**		-
Other movements in investing activities		3,500	10,053
Interest received	**31**	3,761	8,230
Net cash generated from/(used in) investing activities		**19,371**	**44,671**
Cash flows from financing activities			
Issuance of equity instruments	**1**	-	125,712
Proceeds from borrowings		6,201	1,101
Repayments of borrowings	**22**	(4,285)	(29,115)
Dividends paid to shareholders of the company	**34**		-
Other payments to shareholders of the company		-	(197)
Dividends paid to minority interests (non-controlling interests)	**20**	-	(112)
Other proceeds from/(payments for) financing activities		-	86
Net cash generated from/(used in) financing activities		**1,916**	**97,475**
Net (decrease)/increase in cash and cash equivalents		**17,327**	**11,319**
Cash and bank overdrafts at the beginning of the year		**103,097**	**90,579**
Profit/(loss) on exchange differences in cash and cash equivalents		**(759)**	**(705)**
Impact of Argentina's consideration as a hyperinflation economy. Loss of purchasing power.	**31**	**3,243**	**1,904**
Cash and cash equivalents at the end of the year	**15**	**122,908**	**103,097**

The accompanying notes 1 to 41 are an integral part of these consolidated financial statements.

NOTES TO THE 2019 CONSOLIDATED FINANCIAL STATEMENTS
(€ thousand)

1. General information

Duro Felguera, S.A. (the "parent company") was 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.

For the preparation of the consolidated financial statements, a group is understood to exist, since the parent company controls several subsidiaries. The principles applied in the preparation of the Group's consolidated financial statements are detailed in Note 2.2.

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

(€ thousand)

The following table presents information on subsidiaries, associates and jointly-controlled entities:

Company	% ownership interest	Location	Activity
Fully-consolidated:			
DF Mompresa, S.A.U.	100%	Gijón	Assembly and maintenance of turbines
DF Operaciones y Montajes, S.A.U.	100%	Gijón	Study, marketing and provision of all kinds of services and supplies, maintenance, and operation of industrial plants, machinery and equipment for industrial plants. Commissioning of facilities.
Duro Felguera Calderería Pesada, S.A.U.	100%	Gijón	Pressure vessels and heavy boiler-making
DF Técnicas de Entibación, S.A.U. (2)	100%	Llanera	Manufacture of shoring material
Felguera I.H.I., S.A.	100%	Madrid	Fuel and gas storage equipment
Felguera Tecnologías de la Información, S.A. (2)	60%	Llanera	Development of business management software.
Duro Felguera Investment, S.A U. (2)	100%	Gijón	Investment in trading, industrial and service companies, agency and mediation services in diverse types of contract, and securities management and administration.
Duro Felguera Oil&Gas, S.A.U.	100%	Madrid	Creation, design, calculation, basic engineering, detailed engineering, management, planning, computerisation, coordination, monitoring and control of projects in the oil, gas and petrochemical industry.
Epicom, S.A.	100%	Madrid	Research, development, manufacture, marketing, technical assistance, study and consulting in relation to equipment, electronic systems and software
Operación y Mantenimiento Solar Power, S.L. (2)	60%	Madrid	Provision of operation and maintenance services for solar thermal power plants.
Equipamientos Construcciones y Montajes, S.A. de C.V. (2)	100%	Mexico	Construction and assembly of industrial projects
Proyectos e Ingeniería Pycor S.A. de C.V. (2)	100%	Mexico	Construction and assembly of industrial projects
Felguera Diavaz Proyectos México S.A. de C.V. (2)	50%	Mexico	All kinds of activities related to power generation through the full or partial use of wind and cogeneration energy sources.
Turbogeneradores del Perú, S.A.C.	100%	Peru	Installation of electromechanical equipment for electricity plants.
Duro Felguera Argentina, S.A.	100%	Argentina	Construction, maintenance and supply of equipment for power stations.
Opemasa Andina, Ltda. (2)	100%	Chile	Construction, maintenance and supply of equipment for power stations.
Turbogeneradores de Venezuela C.A.	100%	Venezuela	Engineering, supplies and civil works for energy projects.
Mopre Montajes de Precisión de Venezuela, S.A.	100%	Venezuela	Assembly of turbo-generators and auxiliary equipment in power stations.
Duro Felguera Do Brasil Desenvolvimiento de Projectos Ltda. (2)	100%	Brazil	Commercial project development
Felguera Grúas India Private Limited.	100%	India	Port terminals.
PT Duro Felguera Indonesia	95%	Indonesia	Engineering, supply and construction projects for the mining, energy and industrial sectors.
Duro Felguera Australia Pty Ltd.	100%	Australia	Capital goods engineering
Duro Felguera Panamá, S.A. (2)	100%	Panama	Engineering, supplies and civil works for energy projects.
Felguera IHI Panamá, S.A. (2)	100%	Panama	Design, development, manufacture, integration, marketing, representation, installation and maintenance of air-conditioning and mechanical electrical and electronic systems, equipment and sub-assemblies, and the implementation of engineering projects, including necessary civil engineering work.
DF USA, LLC (2)	100%	United States	Commercial project development

NOTES TO THE 2019 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

Company	% ownership interest	Location	Activity
Dunor Energía, S.A.P.I. de C.V. (1)	50%	Mexico	Construction of 313 CC Empalme II combined cycle plant in the state of Sonora (Mexico) under a tender from the Federal Electricity Commission (CFE).
Duro Felguera Saudí LLC (2)	50%	Saudi Arabia	Construction of electricity generation buildings and plants.
Felguera IHI Canadá INC (2)	100%	Canada	Engineering and construction services
DF Canadá Ltd (2)	100%	Canada	Engineering and construction services

Company	% ownership interest	Location	Activity
Equity-accounted:			
Sociedad de Servicios Energéticos Iberoamericanos, S.A. (2)	25%	Colombia	Assembly and maintenance of electricity generation plants
Zoreda Internacional, S.A. (2)	40%	Gijón	Environmental projects

(1) Audited by a firm other than the parent company's auditors.
(2) Not audited.

Company	% ownership interest	Location	Activity
Joint operations:			
UTE Termocentro	100%	Gijón	Design, supply, construction and commissioning of Termocentro CCTP.
UTE Telfers	100%	Gijón	Development of a project in Panama.
UTE DFOM-Mompresa	100%	Gijón	Development of a project in Colombia.
UTE FMM – MCAV Monfalcone	51%	Langreo	Supply, prefabrication and assembly of rubberised metallic tubes for the Monfalcone TP desulphurisation project.
UTE DF – TR Barranco II	50%	Gijón	Turnkey supply of the Barranco II combined cycle plant.
UTE CTCC Puentes	50%	Gijón	Turnkey supply of the Puentes combined cycle plant.
UTE CTCC Barcelona	50%	Madrid	Construction of the Barcelona Port combined cycle.
UTE CT Besós V	50%	Madrid	Civil works for combined cycle plant.
UTE Andasol III	40%	Madrid	Turnkey supply of solar thermal plant.
UTE Duro Felguera Argentina, S.A. – Fainser, S.A.	90%	Argentina	Engineering, equipment and materials supply, electromechanical assembly, civil engineering work and commissioning of the Vuelta de Obligado power plant.
UTE Abbey Etna	48.58%	Langreo	Design, supply and installation of tubing with advanced rapid change system at the Rothrist plant.
UTE As Pontes	65%	Langreo	Transformation, review and upgrades at Puentes de García Rodríguez TP.
UTE Somorrostro	33.33%	Langreo	Mechanical assembly and paintwork for ADI-100 project at the Petronor- Muskiz refinery (Vizcaya).
UTE Hornos Cartagena	33.33%	Langreo	Mechanical assembly of cocker and vacuum furnaces and other sundry assembly work on the C10 Repsol Cartagena refinery enlargement project.
UTE ATEFERM	33.33%	Langreo	Supply and assembly of thermal insulation at the Sagunto regasification plant.
UTE FERESA-KAEFER-IMASA (UTE PETRONOR)	33.33%	Oviedo	Insulation work on COCKER block for the ADI-100 project at the Petronor refinery (Muskiz-Bilbao).
UTE FB 301/2	38.42%	Madrid	Construction and delivery of two liquefied gas storage tanks to the Enagas plant in El Musel.
Consorcio el Sitio (TGV-Y&V Ingeniería)	70%	Venezuela	Engineering, local supplies and construction of the Termocentro thermal power plant.

(€ thousand)

Company	% ownership interest	Location	Activity
UTE Duro Felguera Argentina, S.A. – Masa Argentina, S.A.	51%	Argentina	Execution of "PTV-01 Contract Rehabilitation of steam turbine units Endesa Costanera"
UTE New Chilca	100%	Gijón	Execution of the construction work on the New Chilca combined cycle thermal plant.
UTE DF-ELECNOR EMPALME II	50%	Madrid	Performance of foreign supplies and provision of offshore engineering services for the Empalme II combined cycle plant, as well as enlargement works and complementary and accessory services
UTE DFOM NUCLEO KENIA I	100%	Gijón	Energy access scale up programme project
UTE F.D.B. ZEEBRUGGE	71.98%	Madrid	Execution of work in the EPC engineering project, purchase, supply, construction and commissioning of the enlargement (5th tank) of the LNG terminal in Zeebrugge

The Group's consolidated financial statements for 2018 were approved at the Annual General Meeting held on 31 May 2019.

The consolidated financial statements for 2019 were authorised for issue by the Board of Directors on 22 May 2020 and will be submitted for approval by the Annual General Meeting.

Key events in 2018

In 2018, the parent company successfully completed the process of seeking investors through a capital increase of €125.7 million, as well as the process of restructuring its financial debt. This restructuring process involved:

- The cancellation of an original financial liability for €233 million and, based on the valuation by an independent expert, the recognition of an equity instrument relating to the Class A Convertible Bonds for €8.1 million (Note 16), and the recognition of a debt instrument at the fair value of the Class B Convertible Bonds for €8.1 million (Note 22), all of which had a positive impact on the net financial result of €214.9 million (Note 22), net of transaction costs.
- The restructuring of the remaining financial liability, of €85 million, through a five-year syndicated loan for the same amount, with no repayments the first two years (Note 22).

Also in 2018, as part of the non-core asset disposal plan, the sales of the Group's Vía de los Poblados and Las Rozas office buildings in Madrid, and the stakes of 100% in subsidiary Núcleo de Comunicación y Control, S.L. and 80% in Duro Felguera Rail, S.A. (Note 6) were completed.

After the capital increase was carried, an independent technical consultant was engaged to review the estimates of the main projects under construction. This review was then repeated as part of the year-end closing process and included the analysis of possible indications of impairment of trade receivables. Losses of approximately €148 million were recognised in the year as a result of these review processes.

Meanwhile, the Group recognised a positive impact on equity and profit in 2018 of €38 million after receiving notice of the decision delivered by the Arbitration Court of Singapore regarding the arbitration proceedings between the Group and Samsung C&T Corporation in relation to the Roy Hill project.

2. Summary of significant accounting policies

The main accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

2.1. Basis of presentation

The consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU-IFRS), the interpretations issued by the IFRS Interpretation Committee (IFRIC) and mercantile law applicable to companies reporting under EU-IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting principles. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4. The accounting policies used in the preparation of the accompanying consolidated financial statements are the same as those used in the consolidated financial statements for the year ended 31 December 2018.

All amounts in the consolidated financial statements are in thousands of euros (€), rounded to thousands, unless stated otherwise.

Going concern principle

The Group's equity at 31 December 2019 stood at €15,585 thousand (31 December 2018: €8,518 thousand), while the parent company’s equity amounted to €9,880 thousand.

The Group unveiled its strategic plan for 2019-2023 at the Annual General Meeting. The main focus is on cash generation, articulated based on the following principles: self-financing of each project, priority of profitability over growth, efforts to enhance efficiency and control costs, reduce risks and focus the geographic scope.

In view of the results obtained to date, the directors remain confident of executing the strategic plan. Of the various negative impacts that the liquidity restrictions and difficulties in obtaining funding could have potentially had on the Group's ability to fulfil its strategic plan, the only one to have materialised is that order intake has fallen somewhat short of the level envisioned in the strategic plan.

The effects of this delay in securing new contracts have been offset by improved results in closing negotiations and in claims with customers and suppliers. In 2019, the Group reported positive EBITDA of €3,993 thousand, thus reversing the negative EBITDA trend seen in 2018 and 2017. Driving this performance was a new organisational model focused on controlling costs and streamlining the cost structure. The Group also entered into transactional agreements with various customers providing it with liquidity. Cash and cash equivalents at 31 December 2019 exceeded debt by €22,981 thousand, whereas at year-end 2018, debt exceeded cash by €3,479 thousand.

The Group estimates that the process of bringing order intake levels back to the levels envisioned in the strategic plan will take time. In early 2020, it forecast an average delay in order intake recovery of eight months beyond the period established in the strategic plan. In the wake of the COVID-19 pandemic, the Group is now working on the assumption that the process of recovering order intake could take up to 24 months.

The Group estimates that compliance with the cash plan for the coming 15 months will require: (i) proceeds of between €10 million and €15 million from the sale of non-strategic assets; (ii) obtaining the necessary waivers from the creditor banks in relation to repayments of the loan over this period as it is subject to an acceleration event at the date of authorisation for issue of these financial statements (Note 22); (iii) the need for guarantees or equivalent instruments for projects in the backlog and new contract origination is estimated at €40 million. It is also estimated that the directors' assumptions in relation to projects in progress and those subject to dispute will be met.

Meanwhile, the Group has asked the financial institutions to waive the appointment of an external administrator (voluntary administrator) for Duro Felguera Australia, which took place on 28 February 2020, and while that waiver had yet to be approved at the date of authorisation for issue of these financial statements, it is expected to be granted shortly. Although this circumstance will entail the early maturity of the syndicated loan of €85 million under the refinancing agreement (Note 22), the Group does not anticipate that this loan will be enforced because it is confident of securing the waiver.

Further highlights

Progress was made during the year in rolling out the strategic plan by undertaking measures such as adding new guidelines, making organisational changes, starting back up commercial activity, reducing costs and concentrating activity in the Gijón headquarters.

The Group is in negotiations and has several outstanding claims with customers at varying stages to enhance the Group's cash and equity positions. Negotiations are also actively in progress with suppliers in a bid to reduce the amounts past due.

The Group is seeking to have the refinancing agreement reviewed with the creditor banks in order to improve the Group's equity situation and arrange alternative bilateral guarantee facilities and similar items.

The Group has also initiated a process of searching for long-term industrial investors so as to help achieve the order intake levels envisioned in the strategic plan and bolster the Group's equity and cash position.

The Group is taking all the necessary steps and actions to comply with the milestones described above. Therefore, the directors have prepared these consolidated financial statements on a going concern basis.

Changes in accounting policies and disclosures

In preparing these consolidated financial statements, the Group has not opted for the early adoption of any standard or amendment that is not mandatory.

Except where indicated otherwise below, the accounting policies used are the same as those applied in the 2018 annual consolidated financial statements.

Standards, amendments and interpretations approved by the European and effective from 1 January 2019

IFRS 16 *Leases:*

IFRS 16 replaces IAS 17 — Leases; Interpretation IFRIC 4: Determining whether an Arrangement contains a Lease; Interpretation SIC-15 *Operating Leases—Incentives*; and Interpretation SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new standard establishes a single on-balance sheet model for lease accounting. A lessee recognises the right to use the underlying asset and a liability to make lease payments. The standard includes two exemptions when recognising rights of use in lessee accounting: leases for which the underlying asset is of low value and short-term leases (i.e., leases with a lease term of 12 months or less).

Under IFRS 16, lessees are required to recognise a lease liability in the consolidated balance sheet measured at the present value of the remaining lease payments and a right-of-use asset measured at an amount equal to the lease liability plus initial direct costs incurred.

Also under IFRS 16, expenses related to these leases are presented as a depreciation charge from the right-of-use assets and finance costs for the lease liabilities.

Lessor accounting under IFRS 16 is substantially unchanged. Lessors will continue to classify leases as either operating or finance leases based on the substantial transfer of the risks and rewards incidental to ownership. Therefore, IFRS 16 did not have a significant impact on the leases in which the Group acts as lessor.
The Group has applied the following policies, estimates and criteria:

- IFRS 16 was applied from 1 January 2019 using the modified retrospective method, recognising the cumulative effective of initially applying the standard from the date of initial application without restating comparative data. In addition, the initial right-of-use asset was measured at the amount of the lease liability at 1 January 2019 for all leases.

- The Group applied the lease recognition exemption to leases of low-value assets and short-term leases (i.e., those leases that have a lease term of 12 months or less). It did not apply the standard to intangible assets.

- The Group applied the practical expedient explained in paragraph C3 of IFRS 16, which states that an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application.

- It elected not to account for lease components separately from non-lease components for those assets in which the stand-alone value of these components is not material relative to aggregate value of the lease.

- The Group determined the initial term of each lease as the non-cancellable period of the lease except where it has a unilateral option to extend or terminate the lease and it is reasonably certain that it will exercise that option. In these cases, it will consider the periods covered by the extension or early termination. Given the Group’s operations and the type of assets held under leases, in the vast majority of the cases the lease term is the same as the non-cancellable period (except for certain offices).

When evaluating the leases arranged by the Group, it has been concluded that apart from the commercial offices held in Madrid, the Group's remaining leases relate to works in progress and mostly have lease terms of less than 12 months or to leases of office equipment (e.g. personal computers, printers, and photocopiers) considered to be of low value. Therefore, IFRS 16 has not had a significant impact at the Group.

Other amendments or interpretations approved by the European Union and effective from 1 January 2019:

<u>Annual improvements to IFRSs – 2015-2017 Cycle</u>

The IASB has amended the following standards:

- *IFRS 3 Business Combinations – Previously held Interests in a joint operation.*
- *IFRS 11 Joint Arrangements – Previously held Interests in a joint operation.*
- *IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity.*
- *IAS 23 Borrowing Costs – Borrowing costs eligible for capitalisation.*
- *Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures*
- *Amendments to IFRS 9 - Prepayment Features with Negative Compensation*

Application of these amendments and interpretations has not had a significant impact on the consolidated financial statements.

IFRIC 23 *Uncertainty over Income Tax Treatments*.

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation does not apply to taxes or levies outside IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. This interpretation has not had a significant effect on the Group's condensed consolidated financial statements.

All mandatory accounting standards and measurement bases that could have a significant effect on the accompanying consolidated financial statements were applied in their preparation.

Standards, amendments and interpretations approved by the European Union and effective from 1 January 2020

As at the date of preparation of these consolidated financial statements, no new standards, amendments or interpretations effective from 1 January 2020 had been approved.

Standards, amendments and interpretations to standards issued that cannot be early adopted or that have not been adopted by the European Union

At the date of preparation of these consolidated financial statements, the IASB and IFRIC had issued the following standards, amendments and interpretations that are pending approval by the European Union:

IFRS 10 (Amendment) and IAS 28 (Amendment) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

IFRS 17 *Insurance Contracts*

IFRS 3 (Amendment) *Definition of a Business*

IAS 1 (Amendment) and IAS 8 (Amendment) *Definition of Material*

The Group is currently analysing the potential impacts of the new standards on its consolidated financial statements.

All mandatory accounting standards and measurement bases that could have a significant effect on the accompanying consolidated financial statements were applied in their preparation.

2.2. Basis of consolidation

a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it has exposure, or rights, to variable returns from its involvement in the investee and the ability to use its power over the investee to affect the amount of these returns. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If a business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains and losses arising from such remeasurement are recognised in profit and loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change in other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised gains and losses that arise in intragroup transactions recognised as assets are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Note 1 sets out the identification data of the subsidiaries included in the scope of consolidation.

The annual financial statements used in the consolidation process are, in all cases, those for the year ended 31 December each year.

b) Associates

Associates are all entities over which the Group has significant influence but control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method. The investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investors' share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

If the ownership interest in an associated is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses is an associate equals or exceeds its investment in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in "Share of profit/(loss) of associates" in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

Note 1 sets out the identification data of the associates included in the scope of consolidation.

The annual financial statements used in the consolidation process are, in all cases, those for the year ended 31 December each year.

c) Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Duro Felguera Group is party to several temporary joint ventures (UTEs), and based on the nature of the arrangements, it classifies them as joint operations. This assessment is based on the fact that the party of a UTE has rights to the assets and obligations for liabilities in the same proportion as its interest in the operation. A joint operator shall recognise in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenditure incurred jointly.

The table summarising subsidiaries and associates provides the identification data for joint operations included in the scope of consolidation.

The annual financial statements used in the consolidation process are, in all cases, those for the year ended 31 December each year.

d) Changes in the scope of consolidation

The main movements in 2019 in the consolidation scope were as follows:

	Disposals
GROUP	
	DF Ingeniería Técnica de Proyectos y Sistemas, S.A. Duro Felguera Industrial Projects Consulting Co, Ltd Tanques de Cartagena, S.A.
ASSOCIATES	
	Duro Felguera Rail, S.A.
UTEs	
	UTE CGSI Asturias Lote 3 UTE CGSI Asturias Lote 4 UTE DF Operaciones y Montajes, S.A. y Masa Operaciones Internacionales, S.L.

Also in 2019, the non-controlling shareholder of the Felguera IHI, S.A. subsidiary departed, making it a wholly owned Group subsidiary.

Aside from the matters described above, the impact of these changes in the consolidation scope on equity and consolidated profit or loss was not significant in 2019.

Changes in the Group's consolidation scope in 2018 were as follows:

	Additions
GROUP	
	Tanques de Cartagena, S.A.

	Disposals
GROUP	
	Eólica del Principado, S.A.
	Núcleo de Comunicaciones y Control, S.L.U.
	Núcleo Seguridad S.A.U.
	Núcleo Sistemas Inteligentes México, S.A. de C.V.
	Núcleo Chile, S.A.
	Núcleo India Pvt. Ltd
	Núcleo Maroc, SARL
	Duro Felguera Rail, S.A.U.
ASSOCIATES	
	MDF Tecnogás, S.L.
UTEs	
	UTE Suministros Ferroviarios 2006
	UTE Programa 2010
	UTE Suministros aparatos de vía 2010-2012
	UTE Fabrides Cuadruplicación
	UTE Fabrides Olmedo-Zamora-Pedralba Fase I
	UTE Fabrides Venta de Baños Burgos AV FI
	UTE Fabrides Desvíos Mixtos Corredor del Mediterráneo
	UTE Fabrides Valladolid Palencia León AV FI
	UTE Fabrides Monforte del CID Murcia FASE I
	UTE Fabrides Antequera-Granada FASE I
	UTE Fabrides Haramain
	UTE DF SUMINISTROS FERROVIARIOS
	UTE CELT EL PRAT
	UTE Ineco-Page-Defex Inepade
	UTE Núcleo Tecosa II
	UTE Page Ibérica Sampol Málaga
	UTE Hidrosur
	UTE Núcleo Ingenia Málaga
	UTE Núcleo Avanzit
	UTE Núcleo-Ingenia Alicante
	UTE Núcleo Ingenia Fuerteventura
	UTE Groupement GE DF NUCLEO COBRA (Libreville)
	GROUPEMENT NUCLEO MCE-SA/VINCI
	UTE FERESA-KAEFER-IMASA (UTE G-42)
	UTE FTI-Vitruvio-Sist. Avanz. Tec.-Intermark

The impact of these changes in the consolidation scope on equity and consolidated profit or loss was not significant in 2018.

e) Transactions with non-controlling interests

The Group records transactions with non-controlling interests as transactions with the equity holders of the Group. In acquisitions of non-controlling interests, the difference between the consideration paid and the proportionate share of the carrying amount of the entity's net assets is recognised in equity. Gains or losses on disposals of non-controlling interests are also recognised in equity.

When the Group loses control or significant influence, it measures any retained investment at its fair value, with any increase in the carrying amount of the investment recognised in profit or loss. The fair value of the retained interest in the associate, joint venture or financial asset for subsequent recognition is its initial carrying amount. In addition, any amount previously recognised in other comprehensive income in relation to that investment is accounted for on the same basis as would have been required if the Group had directly disposed on all the related assets and liabilities. This could mean that the amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced, but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

f) Foreign currency translation

The financial statements of Group companies whose functional currency is the currency of a hyperinflationary economy are adjusted for inflation in accordance with the procedure described in the following paragraph prior to their translation to euros. Once restated, all the items of the financial statements are converted to euros using the closing exchange rate. Amounts shown for prior years for comparative purposes are not modified.

To determine the existence of hyperinflation, the Group assesses the qualitative characteristics of the economic environment of the country, as well as the trends in inflation rates over the previous three years. The financial statements of companies whose functional currency is the currency of a hyperinflationary economy are restated to reflect changes in purchasing power of the local currency, such that all items of the balance sheet not expressed in current terms (non-monetary items) are restated by applying a general price index at the financial statement closing date, and all income, expenses, profit and losses are restated monthly applying appropriate adjustment factors. The difference between initial and adjusted amounts is taken to profit or loss.

As indicated in Note 2.5 d), Argentina was classified as a hyperinflationary economy in 2018. To update the financial statements, the Group has used the indexes defined in Resolution JG No. 539/18, as published by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE), based on the Consumer Price Index (CPI) published by the National Institute of Statistics and Censuses (INDEC) of the Argentine Republic and the Internal Wholesale Price Index (IPIM) published by the FACPCE. The cumulative index at 31 December 2019 and 2018 was 283.44% and 184.85%, respectively, while on an annual basis the index for 2019 was 54% (48% for 2018).

2.3. Current and non-current balances

Balances of assets and liabilities are considered non-current when they fall due more than 12 months after the end of the reporting period.

2.4. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors, which makes strategic decisions (Note 5).

2.5. Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the economic environment in which the company operates ('the functional currency'). The consolidated financial statements are presented in euros (€), which is the parent company's functional and presentation currency.

In the case of a hyperinflationary economy, the procedure explained in Note 2.5 d) is followed.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions or valuation, where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at closing rates are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement under "Finance income and costs". All other foreign exchange gains and losses are presented in "Other gains/(losses) net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

c) Group companies

The results and financial position of all Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet shall be translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement presenting profit or loss and other comprehensive income at average exchange rates, unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which came income and expenses are translated at the rate on the dates of the transactions; and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in a foreign operation, and of loans and other instruments in foreign currency designated as hedges of these investments, are recognised in other comprehensive income. On the disposal or partial disposal of the foreign operation, the exchange differences recognised in equity are reclassified to profit and loss as part of the gain or loss recognised on the disposal. Translation differences at 31 December 2019 arose mainly from the subsidiaries in Argentina, Brazil and Australia, due to the depreciation of the Argentinian peso and the Brazilian real, and the appreciation of the Australian dollar.

d) Hyperinflationary economies

<u>Classification of Argentina as a hyperinflationary economy</u>

Argentina has been classified as a hyperinflationary economy since 2018. The Duro Felguera Group applies the inflation adjustments to companies whose functional currency is the Argentine peso for financial reporting for periods ended as of 1 July 2018. Therefore, the interim consolidated financial statements for the first half of 2018 were not restated and do not include hyperinflation adjustments.

In accordance with IAS 29, the main impacts are:

- Adjustment of the historical cost of the non-monetary assets and liabilities and the various items of equity from the date of acquisition or inclusion in the consolidated balance sheet to the end of the reporting period to reflect the changes in the purchasing power of the currency caused by inflation.
- Inclusion of the gain or loss on the net monetary position caused by the impact of inflation in profit or loss.
- Adjustment of the various items of the statement of cash flows by the general inflation index from the dates they arose, with a balancing entry in net financial results and an offsetting item in the statement of cash flows, respectively.
- Translation of all components of the financial statements of Argentine companies at the closing exchange rate, which at 31 December 2019 was 67.29 Argentine pesos per euro.

The Group does not have any significant fixed assets in Argentina, so the impact of hyperinflation was not significant. The impact was recognised in exchange differences.

The main impacts on the Duro Felguera Group's consolidated financial statements for the year ended 31 December 2019 arising from the above were as follows:

	€ thousand
Revenue	684
Operating profit/(loss)	201
Profit/(loss) for the year from continuing operations	3,455
Accumulated exchange differences	(2,743)
Impact on equity	712

2.6. Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to the residual value over their estimated useful lives, as follows:

	Years of estimated useful life
Buildings	7 to 57
Technical installations and machinery	4 to 33
Other installations, equipment and furniture	3 to 20
Other property, plant and equipment	3 to 20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).
Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised in "Other gains/(losses) net" in the income statement.
Borrowing costs are recognised as an expense as incurred, unless they can be capitalised. The costs can be capitalised:

- When the borrowing costs are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use.
- Whenever it is probable that they will result in future economic benefits to the company and the costs can be measured reliably.

2.7. Investment properties

Investment properties consist of land or buildings owned by the company for long-term capital appreciation and are not occupied by the Group.

Properties are transferred to, or from, investment properties when there is a change in use, evidenced by:

- Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;

- Commencement of development with a view to sale, for a transfer from investment property to inventories;

- End of owner-occupation, for a transfer from owner-occupied property to investment property; and

- Inception of an operating lease to another party, for a transfer from inventories to investment property.

After initial recognition, these assets are stated at acquisition cost less accumulated depreciation and any accumulated impairment losses recognised.

2.8. Intangible assets

a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of the net identifiable assets acquired. If the total of consideration transferred, the non-controlling interest recognised, and the previously held equity interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer’s cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying amount of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment loss is recognised immediately as an expense and is not subsequently reversed.

b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 to 8 years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

c) Development costs

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

a) it is technically feasible to complete the software product so that it will be available for use or sale;
b) management intends to complete the intangible asset and use or sell it;
c) the entity has the ability to use or sell the intangible asset;
d) it can be demonstrated how the software product will generate probable future economic benefits;
e) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
f) the expenditure attributable to the software product during its development can be reliably measured.

Development costs capitalised for assets with a finite useful life are amortised from the start-up of the product’s commercial production on a straight-line basis over the period of expected future benefits, but in no case over more than five years.

2.9. <u>Impairment of non-financial assets</u>

Intangible assets that have an indefinite useful life, for example goodwill, or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. For the purposes of assessing impairment losses, assets are grouped together at the lowest levels for which there are largely independent cash inflows (cash-generating units).

Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

2.10. Non-current assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amounts will be recovered principally through a sale, provided the sale is highly probable. These assets are measured at the lower of their carrying amount and fair value less costs to sell.

2.11. Financial assets

2.11.1 Initial recognition and subsequent measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

2.11.2 Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

a) Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group includes guarantees enforced in this category as it considers they meet the requirement for recognition as a financial asset since they are a controlled resource based on past events and it expects to obtain future benefits. These benefits are backed by the favourable probability given by the Group's external legal advisers in accordance with opinions issued by them. However, they will be set off against amounts payable, as appropriate, in the event of unsuccessful lawsuit.

Moreover, the Group, where applicable, has set aside provisions for the maximum amount of penalties that could be implied by the customer for contracts in force. Therefore, the contractual risk is covered with these provisions.

The Group takes the amount of guarantees enforced in its assessment of the recoverability of receivables in accordance with IFRS 9. Where the Group estimates an adverse outcome of a lawsuit, it recognises the related provision in accordance with IAS 37. The guarantees enforced against the Group are indicated in Note 36.

b) Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

c) Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the income statement when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI.

Equity instruments designated at fair value through OCI are not subject to impairment assessment.

d) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. Dividends on listed equity investments are also recognised as other income in the income statement when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.11.3 Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.11.4 Impairment of financial assets

The impairment model requires the recognition of an allowance for impairment based on expected loss rather than exclusively on credit losses incurred.

The Group applies the simplified approach to its customer accounts, receivables and other assets, which mostly relate to highly solvent customers with which it has extensive experience, recognising the lifetime expected credit loss.

For trade receivables and contract assets, provided they do not contain a significant financing component, the Group applies the simplified approach, which requires recognition of a loss allowance based on lifetime expected credit losses at each reporting date. The Group's model considers internal information, such as the balance of exposure to customers, external factors, such as customer credit scores and risk ratings of agencies, and customer-specific circumstances based on available information about past events, current conditions and forecasts of future economic conditions.

2.11.5 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if:

- there is a currently enforceable legal right to offset the recognised, amounts and
- there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.12. <u>Derivative financial instruments and hedging activities</u>

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

(i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
(ii) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
(iii) hedges of a net investment in a foreign operation.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within "Other gains/(losses) net".

c) Derivatives not qualifying for hedge accounting

Certain derivative instruments may not qualify for hedge accounting. In these cases, the changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

2.13. Inventories

Raw materials and ancillary materials, and materials for consumption and replacement, are stated at the lower of average acquisition cost or net realisable value.

Finished and semi-finished products, and work in progress are stated at the average production cost for the year, which includes the cost of raw materials and other materials used, labour and direct and indirect production expenses, but excluding borrowing costs. The cost of these inventories is reduced to net realisable value when this is lower than production cost.

The value of obsolete and defective products has been reduced, using estimates, to their potential realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14. Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected to occur in one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provisions for impairment losses, as explained in section 2.11.4. The amount of the provision is recognised in the income statement.

2.15. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.16. Share capital

Share capital is represented entirely by ordinary shares classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new ordinary shares or options, for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or sold. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.17. Deferred income

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight- line basis over the expected lives of the related assets.

2.18. Financial liabilities

2.18.1 Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

2.18.2 Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below.

a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

b) Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "Net finance income/(cost)" in the income statement.

This category generally applies to interest-bearing loans and borrowings.

2.18.3 Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

2.19. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other consolidated comprehensive income or directly in equity. In this case, the tax is also recognised in other consolidated comprehensive income or directly in equity, respectively.

a) Income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Duro Felguera, S.A. and the Spanish subsidiaries in which it directly or indirectly holds an interest of over 75% pay income tax under the group taxation scheme. Under this scheme, the taxable amount is calculated on the basis of the consolidated results of Duro Felguera, S.A. and these subsidiaries.

b) Deferred taxes

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax credits for research and development are recognised when the relevant deduction is applied for tax purposes, once the relevant reports have been received from certifying agencies that collaborate with the relevant official bodies.

Deferred income tax is recognised on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference cannot be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when, and only when, there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21. Employee benefits

a) Coal vouchers

The Group has commitments with certain serving and retired employees that belonged to its discontinued coal activity for the monthly supply of a certain quantity of coal.

Annual coal allowances are calculated based on actuarial studies prepared by an independent actuary and include the following assumptions: mortality tables PERM/F 2000P, technical interest rate of 0.74% p.a. (2018: 1.28%) and consumer prices indices showing an increase of 1% p.a. (2018: 1%).

b) Length-of-service awards and other employee commitments

The Collective Labour Agreement covering certain Group companies provides for awards for employees that complete 25 and 35 years of service with the Company, in addition to other obligations with employees. To measure these obligations, the Group has applied its best estimates based on an actuarial study performed by an independent third party in which the following assumptions have been applied: mortality table PERM/F 2000P and a technical interest rate of 0.74% p.a. (2018: 1.28%).

c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates. (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

d) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obligated or where there is a past practice that has created a constructive obligation.

2.22. Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when:

(i) the Group has a present legal or constructive obligation as a result of past events;
(ii) it is probable that an outflow of resources will be required to settle the obligation; and
(iii) the amount has been reliably estimated.

Restructuring provisions include employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable from the sale of goods or services, net of value added tax, returns and discounts, and after eliminating intercompany sales.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimated on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

a) Sale of goods

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted them and collection of the corresponding receivables is reasonably assured.

b) Sales of services

Sales of services and administration services are recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided. The price payable by the end customer is the direct cost incurred plus a fixed margin for indirect costs and industrial profit.

c) Turnkey engineering contracts

Contract costs are recognised as an expense in the period in which they are incurred. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recovered. At 31 December 2019 and 2018, in none of the projects was it considered that the outcome cannot be estimated reliably.

When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenues, the expected loss is recognised as an expense immediately.

Variations in construction work are included in contract revenues when: a) it is probable that the customer will approve the amended plan and the amount of revenue arising from the variation; and b) the amount of the variation can be reliably measured.

Claims in construction work are included in contract revenues to the extent that: a) negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and b) the amount that it is probable will be accepted by the customer can be measured reliably.

Incentive payments are included in contract revenue when: a) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and b) the amount of the incentive payment can be measured reliably.

The Group uses the input or effort method to measure progress, as the risks and rewards of the asset are transferred to the customer. This method most faithfully represents the transfer of the asset, as there is a direct relationship between the inputs (costs incurred in relation to the total or projected costs of satisfying the performance obligation) and the transfer of control of the goods or services to the customer.

The Group presents the gross amount due from customers for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billing not paid yet by customers and retentions are included in "Trade and other receivables – Completed work pending certification" (Note 12).

The Group presents the gross amount due from customers for all contracts in progress for which progress billings exceed costs incurred plus recognised profit (less recognised losses).

Costs related to the presentation of bids for construction contracts in Spain and abroad are expensed in the income statement when incurred, when it is not probable or certain that contract will be awarded to the Company. The cost of submitting bids is included in the contract cost when it is probable or certain that the contract will be awarded to the Company, or when it is certain that these costs will be reimbursed or included in contract revenue.

d) Interest income

Interest income is recognised using the effective interest method. When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the instrument's original effective interest rate, and continues unwinding the discount as a reduction to interest income. Interest income on impaired loans is recognised using the original effective interest rate.

e) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.24. Leases

a) Group as a lessee

The Group acts as lessee under lease contracts for office space, vehicles and other equipment. It applies a single recognition and measurement approach for all leases in which it is lessee except for short-term leases and leases of low-value assets.

• *Right-of-use assets*

The Group recognises right-of-use assets at the lease commencement date, i.e. the date on which the underlying asset is available for use. Right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the related lease liabilities. The initial cost of right-of-use assets includes the amount of recognised lease liabilities, any initial direct costs and any lease payments made at or before the commencement date of the lease. Any incentives received are deducted from the initial cost.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the asset's useful life or the lease term.

• *Lease liabilities*

Upon commencement of a lease, the Group recognises the lease liabilities at the present value of the lease payments to be made over the lease term. Lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease cannot be readily determined. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of an option to purchase the underlying asset. The liability is also increased if there is a change to future lease payments resulting from a change in an index or rate used to determine such lease payments.

• *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of equipment that is considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

• *Judgements made in determining the lease term of contracts with renewal option*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

b) Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the income statement due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.25. Distribution of dividends

The distribution of dividends to the parent company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the parent company's shareholders.

2.26. Earnings per share

- Basic earnings per share:

Basic earnings per share are calculated by dividing:

a) the profit attributable to the owners of the company, excluding any equity servicing costs other than ordinary shares
b) by the weighted average number of ordinary shares in issue during the year, adjusted for incentives based on ordinary shares outstanding during the year and excluding treasury shares

- Diluted earnings per share:

Diluted earnings per share are calculated by adjusting the figures used to determine basic earnings per share in order to take into account:

a) the after-tax effect on earnings of interest and other finance costs associated with dilutive potential ordinary shares, and
b) the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.27. Environment

Expenses arising from business actions taken to protect and improve the environment are recognised as an expense in the year incurred. When these expenses lead to additions of property, plant and equipment for the purpose of minimising environmental impact and improving the environment, they are capitalised as an increase in the value of the assets.

3. Financial risk management

3.1. Financial risk factors

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

a) 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 Australian dollar (AUD), and to a lesser extent, local currencies in emerging countries, the most important of which at present are the Argentine peso (ARP), Algerian dinar (DZD) and Indian rupee (INR). 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 31 December 2019.

At 31 December 2019, had the euro weakened by 5% against the US dollar, with all other variables remaining constant, profit after tax for the year would have been €3,473 thousand higher (2018: €736 thousand higher), while had it strengthened by 5%, profit for the year would have been €3,142 thousand lower (2018: €666 thousand lower), mainly as a result of foreign exchange gains/losses on translation to USD of trade and other receivables, cash, suppliers and advances from customers, as well as the impact on the final outcome of projects of the amounts of future revenues and expenses in US dollars, and the effect of the stage of completion at the period-end.

At 31 December 2019, had the euro weakened by 5% against the Australian dollar, with all other variables remaining constant, profit after tax for the year would have been €254 thousand higher (2018: €4,102 thousand higher), while had it strengthened by 5%, profit for the year would have been €230 thousand lower (2018: €3,712 thousand higher), mainly as a result of foreign exchange gains/losses on the translation to AUD of trade and other receivables, cash, suppliers and advances from customers, as well as the impact on the final outcome of projects of the amounts of future revenues and expenses in Australian dollars, and the effect of the stage of completion at the period-end.

(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.

Against the current backdrop, with the first quarter of 2020 having seen the heaviest fall in oil prices since 1991, the Company considers that this fact may give rise to an opportunity for improved order intake for the construction of tanks and reservoirs used to store hydrocarbons.

(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 of a 10 basis point shift upwards or downwards would be an increase/decrease of €73 thousand (2018: €86 thousand).

b) 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 (Note 15).
- Balances related to trade and other receivables (Note 12).

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 71% of "Trade and other receivables" at 31 December 2019 (2018: 62%), 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.

The balance in trade receivables past due but not impaired at 31 December 2019 was €61,441 thousand (2018: €98,303 thousand).

c) 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 Department 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 are presented in the following table:

	€ thousand	
	2019	**2018**
Borrowings and derivatives (Notes 6, 13 and 22)	(99,927)	(106,576)
Less: Cash and cash equivalents (Note 15)	122,908	103,097
Net cash/(debt) position	22,981	(3,479)
Undrawn credit lines (Note 22)	-	-
Total liquidity surplus/(shortfall)	**22,981**	**(3,479)**

Of the balance of "Cash and cash equivalents" at 31 December 2019 (Note 15), a total of €40,035 thousand was restricted as it had been pledged as security for project guarantees or cash deposits made in lieu of project guarantees (2018: €17,256 thousand).
As discussed in Note 2.1, the Group continued to pursue various strategic actions in 2019 to improve its liquidity.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Derivative financial liabilities are included in the analysis where the contractual maturities are essential for understanding the cash flow schedule. The amounts disclosed in the table are the contractual cash flows discounted:

(€ thousand)

At 31 December 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Loans and finance lease liabilities (Note 22)	10,020	16,893	72,037	977
Convertible bonds (Note 22)	-	-	-	-
Trade and other payables (Note 23)	260,408	-	-	-

As discussed in Note 2.1, the Group has asked the financial institutions to waive the appointment of an external administrator (voluntary administrator) for Duro Felguera Australia, an event that took place on 28 February 2020, and while that waiver had yet to be approved at the date of authorisation for issue of these financial statements, it is expected to be granted shortly. Although this circumstance will entail the early maturity of the syndicated loan of €85 million under the refinancing agreement (Note 22), the Company does not anticipate that this loan will be enforced because it is confident of securing the waiver.

At 31 December 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Loans and finance lease liabilities (Note 22)	6,695	2,129	88,283	1,400
Convertible bonds (Note 22)	-	-	8,069	-
Trade and other payables (Note 23)	365,384	-	-	-

The amounts disclosed in the preceding table are the contractual cash flows discounted, which do not differ significantly from the undiscounted cash flows.

3.2. Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide a return to shareholders and benefits to other equity holders, and maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and derivatives, as shown in the consolidated balance sheet, less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated financial statements, plus net debt.

The gearing ratios at 31 December 2019 and 2018 were as follows (€ thousand):

	2019	2018
Borrowings and derivatives (Notes 6, 13 and 22)	(99,927)	(106,576)
Less: Cash and cash equivalents (Note 15)	122,908	103,097
Net financial debt	22,981	(3,479)
Equity	15,585	8,518
Capital and net financial debt	**(7,396)**	**11,997**
Gearing ratio	**-**	**29.00%**

The amount of cash and cash equivalents at 31 December 2019 was €22,981 thousand higher than the amount of debt, meaning there is no net debt, but rather a net cash surplus. At year-end 2018, debt exceeded cash by €3,479 thousand, leaving net debt.

As explained in Note 22, the Group is subject to compliance with the debt ratio (gross financial debt/ EBITDA) as from the year ended 31 December 2019. The borrowers in the syndicated loan have been given a waiver from the financial institutions on compliance with the debt ratio at 31 December 2019.

3.3. 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 31 December 2019:

	€ thousand			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets:				
- Equity securities	1	5,476	-	5,477
Total assets	**1**	**5,476**	**-**	**5,477**

	€ 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 2018:

	€ thousand			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets:				
- Equity securities	2	4,449	-	4,451
Total assets	**2**	**4,449**	**-**	**4,451**

	€ thousand			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities				
Convertible bonds	-	8,069	-	8,069
Total liabilities	**-**	**8,069**	**-**	**8,069**

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 instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. For long-term debt, quoted market prices and dealer quotes are used. Other techniques, such as discounted cash flows, are used to determine the fair value of the rest of the financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date.

It is presumed that the carrying amount of receivables and payables, less the provision for impairment, is similar to fair value. The fair value of financial liabilities for financial reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

In 2019, there were no significant changes in the economic or business circumstances affecting the fair value of financial assets and financial liabilities.

4. Accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of the consolidated financial statements under IFRS requires management to make assumptions and estimates that may affect the accounting policies adopted and the amounts of assets, liabilities, revenues and expenses, and the accompanying disclosures. The estimates and assumptions are based, among other things, on historical experience and other circumstances considered to be reasonable at the reporting date, the result of which forms the basis of judgement about the carrying amounts of assets and liabilities that cannot be readily determined in any other way. Actual results may differ from estimated results. These estimates and judgements are assessed on an ongoing basis.

Some accounting estimates are considered significant if the nature of the estimates and assumptions is material and if the impact on financial position or operating performance is material. The main estimates made by the Group are addressed below.

a) Warranty claims

The Group provides warranties of between one and two years for its projects, mainly in the turnkey project business line. Management estimates the related provision for future warranty claims based on its experience and the degree of complexity of the product, its experience with respect to the customer's quality expectations, and the country risk of the country where the project is carried out.

Factors that could affect the information used to estimate claims include counter-guarantees covering work performed by partner companies.

b) Estimated impairment of goodwill

The Group tests goodwill for impairment annually in accordance with the accounting policy described in Note 2.9. The recoverable amounts of cash-generating units were determined based on value-in-use calculations. These calculations require the use of estimates.

c) Property, plant and equipment and investment property

The Group receives independent valuations of its investment property, and the land and buildings it owns for the production centres and offices in Gijon (classified as property, plant and equipment) at least annually.

At the end of each reporting period, the directors update their measurement of the fair value of each property using the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available, the directors consider information from a variety of sources, including:

- current prices in an active market for properties of a different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences

- discounted cash flow projections based on reliable estimates of future cash flows, and

- capitalised income projections based upon a property's estimated net market income and a capitalisation rate derived from analysis of market evidence.

The fair values of these assets at 31 December are presented in Notes 7 and 8.

d) Litigation

The Group sets aside, based on the estimates of its legal advisors, sufficient provisions to cover the forecast outflows of cash which may arise from litigation with the various social agents for the amounts claimed, discounted where they are expected to exceed one year.

e) Income tax and deferred tax assets

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. When the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

If changes in the judgements used by management in determining the final results caused a change of 10% in the effective rate (Note 32), this would result in an increase/decrease of €26 thousand in the income tax liability (2018: €370 thousand).

f) Useful lives of property, plant and equipment and intangible assets

Group management determines the estimated useful lives and related depreciation and amortisation expenses for its property, plant and equipment, and intangible assets. The useful lives of the assets are estimated in relation to the period in which the assets will generate economic benefits.

The Group reviews the useful lives of the assets at the end of each financial year. If the estimates differ from those made previously, the effect of the change is recognised prospectively, from the year in which the change was made.

g) Receivables and financial assets

The Group estimates the collectibility of outstanding receivables from customers on projects where there are open disputes or ongoing litigation arising from disagreements about the work carried out or breaches of contractual clauses linked to the performance of the assets delivered to customers. The Group also makes estimates to assess the recoverability of available-for-sale financial assets based mainly on the financial health and short-term business outlook of the investee.

h) Revenue recognition

The Group uses the input or effort method to recognise income, as the risks and rewards of the asset are transferred to the customer. This method most faithfully represents the transfer of the asset, as there is a direct relationship between the inputs (costs incurred in relation to the total or projected costs of satisfying the performance obligation) and the transfer of control of the goods or services to the customer. This revenue recognition method is applied only when the outcome of the contract can be estimated reliably and it is probable that the contract will be profitable. When the outcome of the contract cannot be estimated reliably, contract revenue is recognised only to the extent of the recovery of the costs. When it is probable that contract costs will exceed contract revenue, the loss is recognised as an expense immediately. In using this method, the Group makes significant estimates regarding the total costs necessary to fulfil the contract. These estimates are reviewed and assessed regularly in order to verify if a loss has been generated and if that method can continue to be applied, or it is necessary to re-estimate the expected margin on the project.

During the project, the Group also estimates the probable contingencies related to the increase in the total estimated cost and adjusts the revenue recognition accordingly.

The Company's service contracts general include penalty clauses for delays or other reasons, and occasionally discounts, which vary from contract to contract. At 31 December 2019, the Group had not recognised any provision in this regard (2018: €5,437 thousand).

The Group has recognised customer claims for the Djelfa project totalling €21.8 million in relation to the contractual costs incurred in extending the deadline and formally recognised by the customer. Of this amount, the portion related to the recognised stage of completion of the project, of €14.7 million, was recognised as revenue.

On 27 May 2019, a Memorandum of Understanding was signed with the customer, establishing a framework for dialogue and with both parties committed to resolving their project-related differences in an orderly manner. This framework includes a payment undertaking by the customer and the granting of an additional advance payment. On that same date, the customer provisionally approved the partial acceptance of the claims submitted and technical variations amounting to €6.1 million. At the closing date of the 2019 financial statements, this MoU had yet to be formalised in an addendum to the contract, although contact had been made with the Algerian authorities on various occasions to speed up implementation of the measures agreed upon in the MoU and to make further progress in performing the project.

Regarding the Empalme II project, pursuant to the agreement signed with the customer, CFE, the approach was determined for calculating the financial and indirect cost over-runs caused by extending the period of CFE's liability, which the customer recognised expressly. The Group, together with its partner, presented joint claims for a total of €24 million, of which €12 million was recognised as revenue for the proportional share pertaining to the Duro Felguera Group.

The project was accepted provisionally in August 2019, with certain discrepancies with the customer still to be resolved. On 14 February 2020, the customer issued a certificate approving part of these claims, for a total joint amount for the Group and its partner of €8.7 million.

For the Aconcagua project, the Group recognised €6 million based on the plant's returns under the contract and a favourable third-party expert and legal opinion.

These estimates were made on the basis of the best information available, at the date of preparation of these consolidated financial statements, about the events analysed. However, events may take place in the future that make it necessary to revise these estimates (upwards or downwards). In accordance with IAS 8, this would be done prospectively, with the impact of the change in estimates recognised in the consolidated income statement.

5. Segment information

The Board of Directors is the chief operating decision-maker. Management has defined the operating segments based on the financial information reviewed by the Board of Directors and used to make strategic decisions.

Over the past few years, the Group has evolved from a typically industrial and manufacturing business, to a business in which the service component has become the most significant, after gradually disposing of its production assets.

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.

The bulk of the Group's activity at present is concentrated in the Energy and Mining & Handling segments. The product consists of integration of basic engineering, detailed engineering, civil engineering, equipment supply, assembly, commissioning and financing of complex installations.

The main fields of activity are the construction of power plants, mineral park facilities, design and supply of equipment for ports. Despite the diversity of specialities, the type of returns and risks are consistent in these projects.

The Oil & Gas segment carries out turnkey projects for the oil/gas/petrochemical industry, especially in the international arena.

The "Specialised services" segment includes the provision of specialised services to industry, such as detailed engineering, assembly, and the operation and maintenance of industrial plants.

Finally, and following the sale of subsidiary Duro Felguera Rail, S.A., the Group retains a production workshop, which is included herein under the Manufacturing segment. This line operates in the manufacture of pressure vessels, heavy boilers and research laboratory equipment.

Segment information provided to the Board of Directors for reported segments at 31 December 2019 is as follows:

	€ thousand							
	Energy	**Mining & Handling**	**Oil & Gas**	**Specialised Services**	**Manufacturing**	**Other**	**Inter-group transactions**	**GROUP**
Revenue from external customers (Note 27)	177,105	107,191	48,496	39,888	13,757	6,472	-	392,909
Inter-segment revenue	1,563	602	3,734	19,491	793	23,417	(49,600)	-
Total revenue	178,668	107,793	52,230	59,379	14,550	29,889	(49,600)	392,909
Interest income (Note 31)	282	4,144	31	1,271	-	1,847	-	7,575
Interest expense (Note 31)	(7,186)	(1,108)	(385)	(370)	(82)	(516)	-	(9,647)
Change in fair value of financial instruments	-	-	-	-	-	8,069	-	8,069
Exchange differences (Note 31)	1,406	(1,905)	110	179	92	(641)	-	(759)
EBITDA	(20,440)	12,887	15,971	(1,724)	(4,721)	2,020	-	3,993
Profit/(loss) before tax	(27,449)	15,842	17,396	(272)	(6,703)	5,865	-	4,679

Segment information at 31 December 2018 is as follows:

	€ thousand							
	Energy	**Mining & Handling**	**Oil & Gas**	**Specialised Services**	**Manufacturing**	**Other**	**Inter-group transactions**	**GROUP**
Revenue from external customers (Note 27)	142,995	131,494	47,132	68,177	19,459	12,068	-	421,325
Inter-segment revenue	611	1,104	21	14,326	2,750	20,173	(38,985)	-
Total revenue	143,606	132,598	47,153	82,503	22,209	32,241	(38,985)	421,325
Interest income (Note 31)	826	6,965	76	174	1	217,034	-	225,076
Interest expense (Note 31)	(5,752)	(1,422)	(101)	(179)	(145)	(3,090)	-	(10,689)
Exchange differences (Note 31)	487	661	(742)	(1,062)	(44)	(5)	-	(705)
EBITDA	(97,283)	28,997	(44,163)	(3,102)	(4,004)	(4,841)	-	(124,396)
Profit/(loss) before tax	(102,147)	34,467	(44,980)	(3,394)	(11,219)	206,165	-	78,892

The amounts included under "Other" relate to income and/or expenses related to companies not allocated to any business area, which are mainly corporate activities and engineering and systems integration (Note 31).

"Inter-group transactions" details inter-segment eliminations and adjustments. Transfers or transactions between segments are carried out under the normal business terms and conditions that should also be available to unrelated third parties.

The reconciliation of Group EBITDA with consolidated income statement is as follows

	€ thousand	
	2019	**2018**
Operating profit/(loss)	517	(131,760)
Depreciation and amortisation (Notes 7.8 and 9)	6,547	8,052
Impairment and gains/(losses) on disposal of fixed assets (Note 30)	(2,312)	17
Exchange differences (Note 31)	(759)	(705)
Net carrying amount	**3,993**	**(124,396)**

EBITDA for the period amounted to a positive €4 million, compared to the negative €124.4 million reported a year earlier. This negative result was largely due to the 2018 reviews of the revenue and cost estimates of the main projects under way after reviewing the projects' technical specifications, offers to suppliers and extensions of terms, which gave rise to extraordinary impairment, as explained in the annual financial statements for that year. This prompted the Group to engage a third party in 2019 to assess the state of the projects and set up a specific control unit, with both arriving at the same conclusions.

The Group operates mostly internationally at present. The following table presents the geographical breakdown of revenue at year-end as presented to the Board:

	€ thousand			
Geographical area	**2019**	**%**	**2018**	**%**
- Spain	42,777	10.89%	39,976	9.49%
- Latin America	84,516	21.51%	149,209	35.41%
- Europe	150,304	38.25%	150,785	35.79%
- Africa and the Middle East	109,145	27.78%	64,531	15.32%
- Asia Pacific	3,240	0.82%	9,370	2.22%
- Other	2,927	0.75%	7,454	1.77%
Total	**392,909**	**100%**	**421,325**	**100%**

At 31 December 2019, segment sales with a single customer representing over 10% of the Group's revenue amounted to €65.4 million in Africa and the Middle East and €58.9 million in Europe for the Energy segment, and €46.4 million for the Mining & Handling segment in Europe and €45.8 million in Latam (2018: €76.7 million for the Energy segment in Europe and €59.9 million for the Mining & Handling in Latin America).

At 31 December 2019, revenue from significant external customers in Algeria, Belarus, Dubai, Mexico, Romania and Spain amounted to €42.1 million, €46.4 million, €65.4 million, €59.1 million, €59 million and €42.8 million, respectively (2018: €46.8 million, €84.7 million and €76.7 million in Algeria, Mexico and Romania, respectively).

6. Assets and liabilities classified as held for sale

In the first half of 2019, the Group classified, under assets held for sale, the 20% stake in Duro Felguera Rail, S.A. and other real estate assets. The sale was carried out on 20 December and the previously recognised impairment loss of €1,581 thousand was recognised as a loss on disposal.

At 31 December 2018, assets classified as held for sale related to a hydrocarbon storage plant in Cartagena. The plant was sold on 5 June 2019, with disposal proceeds amounting to €2,188 thousand, as recognised under "Other gains/(losses) net" in the consolidated income statement.

The Group is proceeding with the announced non-core asset disposal plan.

7. Property, plant and equipment

The movements in items composing "Property, plant and equipment" are as follows:

	€ thousand					
	Land and buildings	Technical installations and machinery	Other installations, equipment and furniture	Construction in progress and advances	Other property, plant, and equipment	Total
Balance at 1 January 2018	**41,561**	**27,065**	**6,346**	**206**	**1,519**	**76,697**
Cost	51,334	69,922	20,237	206	13,188	154,887
Accumulated depreciation	(9,773)	(41,857)	(13,863)	-	(11,658)	(77,151)
Impairment losses	-	(1,000)	(28)	-	(11)	(1,039)
Carrying amount	**41,561**	**27,065**	**6,346**	**206**	**1,519**	**76,697**
Additions	-	323	117	-	231	671
Disposals	(2,147)	(2,562)	(194)	(25)	(23)	(4,951)
Other movements	(7,576)	(46)	(483)	-	(129)	(8,234)
Transfers to non-current assets held for sale	(10,089)	(30,696)	(7,929)	(181)	(3,120)	(52,015)
Depreciation	(901)	(2,659)	(685)	-	(539)	(4,784)
Elimination of depreciation	19	1,636	149	-	18	1,822
Other depreciation movements	2,338	18,525	6,223	-	3,229	30,315
Provisions for impairment	-	-	(7)	-	(10)	(17)
Reversal of impairment losses	-	755	4	-	-	759
Balance at 31 December 2018	**23,205**	**12,341**	**3,541**	**-**	**1,176**	**40,263**
Cost	31,522	36,941	11,748	-	10,147	90,358
Accumulated depreciation	(8,317)	(24,355)	(8,176)	-	(8,950)	(49,798)
Impairment losses	-	(245)	(31)	-	(21)	(297)
Carrying amount	**23,205**	**12,341**	**3,541**	**-**	**1,176**	**40,263**
Balance at 1 January 2019	**23,205**	**12,341**	**3,541**	**-**	**1,176**	**40,263**
Cost	31,522	36,941	11,748	-	10,147	90,358
Accumulated depreciation	(8,317)	(24,355)	(8,176)	-	(8,950)	(49,798)
Impairment losses	-	(245)	(31)	-	(21)	(297)
Carrying amount	**23,205**	**12,341**	**3,541**	**-**	**1,176**	**40,263**
Additions	162	99	42	-	348	651
Disposals	31	(1,524)	(30)	-	(77)	(1,600)
Other movements	(1,215)	(9)	219	3	21	(981)
Depreciation	(794)	(1,773)	(463)	-	(366)	(3,396)
Elimination of depreciation	25	1,671	-	-	80	1,776
Other depreciation movements	473	10	(8)	-	(53)	422
Reversal of impairment losses	-	-	31	-	21	52
Balance at 31 December 2019	**21,887**	**10,815**	**3,332**	**3**	**1,150**	**37,187**
Cost	30,500	35,507	11,979	3	10,439	88,428
Accumulated depreciation	(8,613)	(24,447)	(8,647)	-	(9,289)	(50,996)
Impairment losses	-	(245)	-	-	-	(245)
Carrying amount	**21,887**	**10,815**	**3,332**	**3**	**1,150**	**37,187**

In 2019, the most significant changes related to the derecognition of machinery for sale and the reclassification to investment property of certain properties not occupied by the Group.

In the first half of 2018, under the scope of the non-core asset disposal plan and having complied with the requirements in prevailing accounting regulations, the property, plant and equipment of subsidiaries Duro Felguera Rail, S.A.U. and Núcleo de Comunicación y Control, S.L., which were sold in July 2018, and a hydrocarbon storage plant in Cartagena were reclassified to non-current assets held for sale (Note 6).

a) Property, plant and equipment under construction

There were no significant additions in 2019 and 2018.

b) Own work capitalised

In 2019 and 2018, the Group did not capitalise any labour costs or sundry supplies for own work capitalised.

c) Property, plant and equipment subject to guarantees

At 31 December 2019, there were items of property, plant and equipment amounting to €15,602 thousand as collateral and security under debt suspension agreements in connection with the tax assessments for VAT, personal income tax and income tax-related party transactions (2018: €2,177 thousand) (Note 32), although at the date of preparation of these consolidated financial statements and as discussed in Note 41, property, plant and equipment pledged as collateral would have amounted to €2,177 thousand once all avenues of appeal have been exhausted against the ruling in which the National Court (Audiencia Nacional) found in favour of the Company by ruling that the enforcement order and attachments were inadmissible.

d) Insurance

The consolidated Group has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered sufficient.

e) Operating leases

The consolidated income statement also included operating lease expenses under "Operating expenses", relating mainly to leased machinery and assembly equipment for €5,699 thousand (2018: €4,862 thousand).

f) Subsidised assets.

The net carrying amount of subsidised assets was €20,984 thousand (2018: €21,833 thousand).

g) Fully depreciated assets.

At 31 December 2019, there were fully depreciated assets still in use amounting to €25,372 thousand (2018: €24,876 thousand).

h) Impairment losses

Each year, an independent valuation of the Group's land and buildings is performed by independent experts to determine whether there are indications that the assets may be impaired.

To determine the fair value of the identified assets, quoted prices on the most significant active markets were used as a basis in each case. Where the active markets are not relevant or it is considered that there is no active market for the identified assets, the following was used:

a) the price of the most recent transaction in the market, assuming that there has not been a significant change in the economic circumstances between the date of the transaction and the reporting date;
b) market prices for similar assets, adjusted for differences; and
c) industry benchmarks.

No impairment losses were recognised in 2019 (2018: €17 thousand).

8. Investment properties

The movements in items composing "Investment properties" are as follows:

	€ thousand		
	Land	**Buildings**	**Total**
Balance at 1 January 2018	**20,010**	**7,390**	**27,400**
Cost	20,803	23,381	44,184
Accumulated depreciation	-	(13,847)	(13,847)
Impairment losses	(793)	(2,144)	(2,937)
Carrying amount	**20,010**	**7,390**	**27,400**
Depreciation	-	(369)	(369)
Transfers - cost	5,105	3,172	8,277
Transfers - depreciation	-	(1,718)	(1,718)
Balance at 31 December 2018	**25,115**	**8,475**	**33,590**
Cost	25,908	26,553	52,461
Accumulated depreciation	-	(15,934)	(15,934)
Impairment losses	(793)	(2,144)	(2,937)
Carrying amount	**25,115**	**8,475**	**33,590**
Depreciation	-	(424)	(424)
Transfers to non-current assets held for sale (Note 6)	(4,575)	(3,702)	(8,277)
Transfers - cost	(221)	1,436	1,215
Transfers - depreciation	-	1,223	1,223
Balance at 31 December 2019	**20,319**	**7,008**	**27,327**
Cost	21,112	24,287	45,399
Accumulated depreciation	-	(15,135)	(15,135)
Impairment losses	(793)	(2,144)	(2,937)
Carrying amount	**20,319**	**7,008**	**27,327**

Investment properties mainly include land in the municipalities of Langreo and Oviedo (Asturias), of which €1 million (2018: €1 million) correspond to plots zoned as rural estates located in various areas of the Langreo municipality, €9.9 million (2018: €14.7 million) to industrial plots and developable land, and €10 million (2018: €8.1 million) to buildings in Gijón, Oviedo and La Felguera.

Land and industrial facilities used by Tedesa in Llanera were transferred in the year to non-current assets held for sale (see Note 6).

At year-end 2019, the fair value of the investments, as appraised by an independent expert valuer (Note 7.h), stood at €42,640 thousand (2018: €36,670 thousand).

In 2019, operating expenses of €148 thousand in connection with these investments were recognised in the consolidated income statement (2018: €116 thousand).

a) Investment property subject to guarantees

At 31 December 2019, there were items of investment property amounting to €15,234 thousand securing the debt suspension agreements on the tax assessments for VAT, personal income tax and income tax-related party transactions (2018: €14,913 thousand) (Note 32), although at the date of authorisation for issue of these consolidated financial statements and as discussed in Note 41, investment property pledged as collateral would have amounted to €14,788 thousand once all avenues of appeal have been exhausted against the ruling in which the National Court (Audiencia Nacional) found in favour of the Company by ruling that the enforcement order and attachments were inadmissible.

9. Intangible assets

The breakdown of items composing "Intangible assets" by internally generated and other intangible assets is as follows:

	€ thousand					
	Goodwill	**Development**	**Computer software**	**Construction in progress and advances**	**Other assets**	**Total**
Balance at 1 January 2018	**3,286**	**2,623**	**12,959**	**228**	**78**	**19,174**
Cost	3,286	8,370	23,638	228	259	35,781
Accumulated amortisation	-	(5,747)	(10,679)	-	(181)	(16,607)
Carrying amount	**3,286**	**2,623**	**12,959**	**228**	**78**	**19,174**
Additions	-	551	20	7	-	578
Disposals	-	(29)	-	-	-	(29)
Transfers to non-current assets held for sale (cost) (Note 6)	-	(1,261)	(2,114)	-	(9)	(3,384)
Amortisation	-	(586)	(2,299)	-	(14)	(2,899)
Elimination of amortisation	-	15	-		-	15
Transfers to non-current assets held for sale (amortisation) (Note 6)	-	1,261	2,006	-	5	3,272
Balance at 31 December 2018	**3,286**	**2,574**	**10,572**	**235**	**60**	**16,727**
Cost	3,286	7,631	21,544	235	250	32,946
Accumulated amortisation	-	(5,057)	(10,972)	-	(190)	(16,219)
Carrying amount	**3,286**	**2,574**	**10,572**	**235**	**60**	**16,727**
Balance at 1 January 2019	**3,286**	**2,574**	**10,572**	**235**	**60**	**16,727**
Cost	3,286	7,631	21,544	235	250	32,946
Accumulated amortisation	-	(5,057)	(10,972)	-	(190)	(16,219)
Carrying amount	**3,286**	**2,574**	**10,572**	**235**	**60**	**16,727**
Additions	-	605	61	-	-	666
Disposals	-	(150)	(194)	-	(250)	(594)
Amortisation	-	(570)	(2,152)	-	(5)	(2,727)
Elimination of amortisation	-	2	194	-	195	391
Other amortisation movements	-	-	6	-	-	6
Balance at 31 December 2019	**3,286**	**2,461**	**8,487**	**235**	**-**	**14,469**
Cost	3,286	8,086	21,411	235	-	33,018
Accumulated amortisation	-	(5,625)	(12,924)	-	-	(18,549)
Carrying amount	**3,286**	**2,461**	**8,487**	**235**	**-**	**14,469**

a) Fully amortised assets

At 31 December 2019, there were fully amortised assets still in use amounting to €10,522 thousand (2018: €9,456 thousand).

b) Own work capitalised

In 2019, the Group capitalised labour and sundry materials costs for work on its own assets amounting to €640 thousand (2018: €537 thousand) under "Other gains/(losses) net" (Note 30).

c) Goodwill

At 31 December 2019, intangible assets included goodwill of €3,286 thousand (2018: €3,286 thousand) arising from the acquisition of Epicom, S.A.

The recoverable amount of the goodwill has been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Group's management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a growth rate of 0.5%. The discount rate applied was 8.67% (2018: 9.45%).

Management determined operating profit less budgeted depreciation and amortisation based on past performance and its expectations of market development. The discount rates used are after tax and reflect specific risks related to the Company's business.

The Group established the key assumptions used in the impairment test based on historical experience.

The recoverable amount is €0.7 million higher than the carrying amount (2018: €4.9 million).

For recoverable amount to match carrying amount, one of the following two changes in parameters would be required:

- A 114% increase in the discount rate used (2018: 194%).
- An 87% reduction in cash flows (2018: 50%).

The carrying amount, the recoverable amount, and the discounted terminal value as a percentage of total recoverable amount in 2019 and 2018 are as follows:

	€ thousand	
	2019	**2018**
Carrying amount	4,717	4,931
Recoverable amount	5,402	9,843
Discounted terminal value/recoverable amount, %	68%	65%

No impairment of goodwill related to Epicom, S.A. was recognised at 31 December 2019 and 2018.

d) Development expenses

Capitalised development expenses at 31 December 2019 relate to the following projects:

	€ thousand			
	Cost	Accumulated amortisation	Impairment loss	Carrying amount
Study into the manufacture of large-size equipment(*)	601	-	-	601
Encryption equipment – EP641	821	(534)	-	287
Encryption equipment – EP430TX	608	(395)	-	213
Certification EP852 (*)	204	-	-	204
Mock-up of Hydroprocessing Reactor	240	(48)	-	192
Crypto Token CT2	280	(131)	-	149
Improvement to welding processes – time optimisation (*)	138	-	-	138
EP960	241	(121)	-	120
Certification GN 2.0 (*)	107	-	-	107
Other projects	5,581	(5,131)	-	450
	8,821	**(6,360)**	**-**	**2,461**

(*) In progress.

10. Investments in associates

	€ thousand	
	2019	**2018**
Opening balance	4,595	20
Disposals	(3,500)	-
Changes in the scope of consolidation	-	4,752
Share of profit/(loss)	(1,075)	(177)
Closing balance	**20**	**4,595**

Disposals in 2019 related to the sale of 20% of Duro Felguera Rail, S.A. (see Note 6), while the changes in the scope of consolidation in 2018 related to the sale of 80% of the shares in the same company.

The Group's interest in its main associates, all of which are unlisted, is as follows:

Name	Country of incorporation	€ thousand Assets	Liabilities	Revenue	Profit /(loss)	% ownership interest
2019						
• Zoreda Internacional S.A.	Spain	N/A	N/A	N/A	N/A	40%
• Sociedad de Servicios Energéticos Iberoamericanos S.A.	Colombia	(*)	(*)	(*)	(*)	25%
2018						
• Zoreda Internacional S.A.	Spain	N/A	N/A	N/A	N/A	40%
• Sociedad de Servicios Energéticos Iberoamericanos S.A.	Colombia	(*)	(*)	(*)	(*)	25%
• Duro Felguera Rail, S.A.U.	Spain	31,646	10,373	11,053	(1,268)	20%

(*) Dormant.
(N/A) Not available.

The Company does not hold less than 20% of any investees where it concludes it has significant influence, nor does it have investments of over 20% in any investees where it concludes that it does not have significant influence.

The Group has no contingencies in relation to associates.

11. Financial instruments

a) Financial instruments by category

The accounting policies on financial instruments have been applied to the following line items:

31 December 2019	€ thousand Amortised cost	Fair value through other comprehensive income	TOTAL
On-balance sheet assets			
- Equity instruments	-	5,477	5,477
- Receivables and other financial assets	192,313	-	192,313
Total	**192,313**	**5,477**	**197,790**

31 December 2018	€ thousand Amortised cost	 Fair value through other comprehensive income	 TOTAL
On-balance sheet assets			
- Equity instruments	-	4,451	4,451
- Receivables and other financial assets	354,295	-	354,295
Total	**354,295**	**4,451**	**358,746**

Available-for-sale financial assets include mainly the stake in Ausenco for €5,406 thousand (2018: €4,380 thousand) over which the Group does not have control. In 2019, changes in the fair value of these financial assets totalling €1,026 thousand were recognised (2018: negative €825 thousand), considering as fair value the company's equity as per its audited financial statements for 2019.

31 December 2019	€ thousand Fair value through profit or loss	 Debts and payables (amortised cost)	 TOTAL
On-balance sheet liabilities			
- Bank borrowings (Note 22)	-	92,654	92,654
- Finance lease liabilities	-	64	64
- Other financial liabilities	-	262,450	262,450
Total	**-**	**355,168**	**355,168**

31 December 2018	€ thousand Fair value through profit or loss	 Debts and payables (amortised cost)	 TOTAL
On-balance sheet liabilities			
- Bank borrowings (Note 22)	-	87,321	87,321
- Convertible bonds	8,069	-	8,069
- Other financial liabilities	-	359,713	359,713
Total	**8,069**	**447,034**	**455,103**

b) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to external credit ratings or historical information on default. In this respect, it should be noted that there are no significant incidents affecting financial assets, other than impaired balances, for which provision should be recognised.

12. Trade and other receivables

	€ thousand	
	2019	2018
Trade receivables	165,238	215,165
Less: Provision for impairment of receivables	(89,307)	(83,023)
Completed work pending certification	67,584	77,424
Other receivables	46,584	143,032
Tax refundable	41,811	42,401
Advance payments	1,722	1,694
Total	233,632	396,693
Less: Non-current portion of other receivables	(262)	(982)
Current portion	**233,370**	**395,711**

The balances of trade and other receivables do not differ from their fair values.

A breakdown of the annual maturities of the balances included in the non-current portion is as follows:

Maturity	€ thousand	
	2019	2018
2020	-	513
2021	198	405
Subsequent years	64	64
Total, non-current	**262**	**982**

At 31 December 2019, in addition to receivables provisioned, receivables amounting to €61,441 thousand had fallen due (2018: €98,303 thousand). Balances less than six months past due are not impaired, as these accounts correspond to customers for whom there is no recent history of default. Balances more than six months past due, which relate to projects in progress, are also not considered to be impaired.

The most important past-due balances relate to:

1) Termocentro (Venezuela)

This heading shows the past-due balance, net of provisions and including completed construction work pending certification, in connection with the Termocentro project in progress, for €23,254 thousand (2018: €31,597 thousand). No amounts related to this project were received between February 2017 and the date of authorisation for issue of these consolidated financial statements. In its assessment of the recoverability of the receivable and taking into account the expected credit loss, the Group considered:

- The entire amount of outstanding balances, including the amount of completed work pending certification and the provision for the withholding to be applied to the customer.
- Since the customer is a public institution, the payable was equated to Venezuela sovereign debt.
- The average yield of 12 Venezuelan government bonds, of 18.49%, was used for the calculation.
- The confirmation from the customers on 28 January 2020 of the full amounts invoiced and pending payment.

Based on these parameters, the Group kept an amount equivalent to the average price of the Venezuelan bonds on the balance sheet, recognising in the period a provision for €8,560 thousand. This took the cumulative amount of the provision at 31 December 2019 to €74,842 thousand (2018: €66,282 thousand).

Under the terms of the agreement signed with the customer, interest amounting to €54,115 thousand has accrued in favour of the Group (2018: €50,347 thousand). This interest has not been recognised and is considered a contingent assets, although it was counted when calculating the impairment provision.

2) Matheu and Lujan (Argentina)

At 31 December 2019, the balance of €20,857 thousand relates to outstanding invoices issued for €16,969 thousand (2018: €16,863 thousand) and completed construction work pending certification totalling €3,888 thousand (2018: €3,814 thousand) (Note 21).

3) India

At 31 December 2019, the Tuticorin project includes a net amount of €10,372 thousand, for outstanding invoices issued totalling €3,125 thousand (2018: €3,144 thousand), completed work pending certification of €2,518 thousand (2018: €2,167 thousand), guarantees enforced by the customer of €5,485 thousand (2018: €5,516 thousand), and a provision for €756 thousand (2018: €761 thousand).

The Group has requested enforcement of the final ruling in its favour against this customer for unpaid invoices and the reimbursement of the guarantees to have been enforced.

In the first half of 2019, the Group reached bilateral agreements with Gangavarm Port Limited and Khrisna Port (India), with the parties cancelling the ongoing arbitration proceedings explained in the notes to the 2018 financial statements and considering any reciprocal claims by the parties terminated. These agreements ultimately led to the recognition of amounts payable to the Group of 1,655 and 325 million Indian rupees (INR), respectively (approximately €25 million), all of which were settled in full during the year. This had a negative impact on the income statement of approximately €4 million, completely offsetting the positive impact of transactional agreements reached with suppliers.

"Other receivables" includes mainly the amount not yet due from the transactional agreement reached with SC&T Corporation over the Roy Hill (Australia) project, amounting to €6.2 million (Note 36). Also related to this project is the amount deposited in a legal advisor's trust account as guarantee of the arbitration with a supplier for an amount of €16.9 million.

The ageing analysis of these receivables is as follows:

	€ thousand	
	2019	**2018**
Up to 3 months	11,298	11,524
Between 3 and 6 months	87	3,743
Between 6 months and 1 year	2,591	14,249
More than 1 year	47,465	68,787
	61,441	**98,303**

Movement in the provision for impairment of receivables is as follows:

	€ thousand	
	2019	**2018**
Opening balance	**83,023**	**61,637**
Provision for receivables impairment	10,889	25,173
Unused amounts reversed	(2,477)	(97)
Amounts used	(151)	(539)
Derecognitions/removals from the scope	(1,977)	(3,151)
Closing balance	**89,307**	**83,023**

The creation and release of the provision for impaired receivables have been included in "Other gains/(losses) net" in the income statement. The main movement was the provision recognised for the Termocentro project.

The other classes within receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The Group does not hold any collateral as security.

The carrying amounts of the Group's receivables are denominated in the following currencies:

	€ thousand	
	2019	**2018**
Euro	46,611	144,873
US dollar	88,497	50,654
Australian dollar	26,787	92,375
Argentine peso	20,588	18,322
Indian rupee	13,102	37,744
Algerian dinar	11,268	21,537
Mexican peso	11,003	19,838
Chilean peso	6,389	6,417
Peruvian nuevo sol	6,179	1,472
United Arab Emirates dirham	1,202	81
Romanian new leu	782	1,128
Brazilian real	171	210
Canadian dollar	94	426
Pound sterling	1	248
Other currencies	958	1,368
	233,632	**396,693**

13. Derivative financial instruments and hedging activities

a) Accounting hedges

The Group arranges exchange insurance for projects involving different collection and payment currencies, but did not have any exchange insurance in effect at 31 December 2019 and 2018.

The breakdown of valuation adjustments recognised in equity for hedging transactions is as follows:

	€ thousand	
	2019	**2018**
Balance at 1 January	**-**	**788**
Net variation due to customer invoicing	-	-
Net variation due to cash balances	-	-
Net variation due to supplier invoicing	-	-
Change in the value of exchange insurance	-	(788)
Balance at 31 December	**-**	**-**

14. Inventories

	€ thousand	
	2019	**2018**
Production materials and supplies	3,529	3,332
Work in progress	1,380	2,438
Finished goods	-	-
Advances to suppliers	5,743	7,278
	10,652	13,048
Less: Impairment losses	(719)	(729)
	9,933	**12,319**

Production materials and supplies are mostly consumed within the year.

"Work in progress" basically includes goods being produced or processed at the Group's production facilities.

Impairment losses affect slow-moving or obsolete materials, bringing their cost into line with fair realisable value.

15. Cash and cash equivalents

	€ thousand	
	2019	**2018**
Cash and banks	80,935	85,981
Short-term bank deposits and promissory notes	41,973	17,116
Cash and cash equivalents (excluding bank overdrafts)	**122,908**	**103,097**

At 31 December 2019, €40,035 thousand were restricted as they were pledged for the issue of guarantees for projects or cash deposits made in place of project guarantees (2018: €17,256 thousand).

The Group has cash in different geographic locations under the ownership of certain subsidiaries, with restrictions in some cases on free transferability or repatriation. Of balances held abroad at 31 December 2019, an amount of €6,800 thousand related to the subsidiary in India are surpluses and subject to these restrictions. However, the Group is applying for permits to repatriate the funds with the Indian authorities. The remaining amounts held abroad are required for use in projects being carried out there.

Short-term deposits at credit institutions relate to investments of cash surpluses maturing within three months. At 31 December 2019, interest-bearing deposits included mainly a deposit in Indian rupees (INR) of €12.2 million earning interest at an AER of 5.75%. The AER on short-term bank deposits at 31 December fluctuated between 0.05% and 0.20% on euro (EUR) balances, between 0.10% on US dollar (USD) balances, and was 1.50% on Australian dollar (AUD) balances.

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	€ thousand	
	2019	**2018**
Euro	68,322	68,473
US dollar	4,774	11,835
Romanian leu	22,452	15,602
Canadian dollar	82	1,362
Brazilian real	27	37
Pound sterling	80	73
Argentine peso	153	158
Algerian dinar	1,194	2,781
Australian dollar	8,951	15
United Arab Emirates dirham	3,414	649
Mexican peso	529	66
Colombian peso	9	29
Indian rupee	12,196	292
Peruvian nuevo sol	666	1,273
Chilean peso	29	27
Chinese yuan	17	17
Other currencies	13	408
	122,908	**103,097**

Figures in currencies other than the euro are mainly designated to cover future transactions in those currencies (Note 13).

16. Capital and share premium

a) Capital

Share capital at 31 December 2018 was represented by 4,800 million fully subscribed and paid shares in book-entry form with a par value of €0.01 each.

On 31 May 2019, a resolution was passed at the Annual General Meeting to reduce capital by €43,200 thousand to offset losses by reducing the par value of all the Company's shares by €0.009. As a result, share capital amounted to €4,800 thousand, represented by 4,800 million shares of €0.001 par value each. The capital reduction was placed on file with the Asturias Companies Register on 27 June 2019.

(€ thousand)

Approval was also given at the Annual General Meeting to group together and cancel ("reverse split") all the shares comprising the Company's share capital to exchange them for newly issued shares in the proportion of one (1) new share for every fifty (50) old shares, increasing the par value of the shares from the one thousandth of a euro (€0.001) established after the share capital reduction, to five euro cents (€0.05), without modifying the share capital figure, thereby reducing the number of shares in circulation. The agreement was filed with the Asturias Companies Register on 1 July 2019, leaving share capital at €4,800 thousand, represented by 96 million shares of €0.05 par value each.

The reverse split became effective on 10 July 2019.

As at the date of authorisation for issue of these consolidated financial statements, the following shareholders held an interest equal to or greater than 3% in the Company's share capital:

Shareholder	Ownership (%) direct	
	2019	**2018**
Global Portfolio Investments, S.L.	5.63%	9.52%
La Muza Inversiones SICAV, S.A.	-	4.90%
Juan José Rodríguez-Navarro Oliver	-	4.17%
UBS Switzerland AG	3.89%	3.88%
TSK Electrónica y Electricidad, S.A.	3.12%	3.12%
Álvaro Guzmán de Lázaro Mateos	-	3.08%

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.

At 31 December 2018, the share premium amounted to €4,656 million, equal to €0.017 per share. After the share capital reduction to offset losses, the share premium at 31 December 2019 was reduced to zero.

c) Treasury shares

On 15 June 2018, approval was given at the General Meeting of Shareholders for a capital reduction to restore the Company's equity, which decreased as a result of losses, through the redemption of all the Company's treasury shares (16 million shares). Accordingly, at 31 December 2019 and 2018, the Company did not hold any treasury shares.

d) Convertible bonds

On 27 July 2018 (effective date), Duro Felguera, S.A., under the scope of the refinancing agreements signed with its financial institutions, converted €233 million of bank borrowings into Class A and Class B convertible bonds (Note 12). Based on the legal evaluation carried out by the Group, after the effective date and throughout the term of the refinancing agreement, the credits converted by the financial institutions are no longer a claim against the Group. The financial institutions' only recourse, even in the event of voluntary bankruptcy, is the request for conversion into shares.

This item includes the total nominal amount of the 9,073,637,389 Class A Convertibles Bonds of €90,736,373.89, with a nominal amount of €0.01 each, convertible into newly issued shares of the Issuer of the same class and series as the ordinary shares of the Company currently outstanding. The maximum duration is five years from the effective date.

Class A Convertible Bonds give holders a right to newly issued shares representing 6% of the Company's share capital after the conversion of all the Class A Convertible Bonds. According to this paragraph, the maximum number of ordinary shares to be issued as a result of the exercise of conversion rights on all of the bonds will be determined at each conversion window in accordance with the following formula:

Number of ordinary shares arising from the conversion of Class A Convertible Bonds

$$N * \frac{6\%}{1 - 6\%}$$

Where N is the number of the Issuer's ordinary shares at the date of calculation.

The **Conversion Price (Cp)** is calculated at each conversion window as:

$$Cp = \frac{\textit{Nominal amount of Class A Convertible Bonds}}{\textit{Number of ordinary shares arising from conversion of the Class A Convertible Bonds}}$$

The Group has concluded that the Class A Convertible Bonds are equity instruments given the following circumstances:

- They do not contain a contractual obligation to deliver cash or another financial asset since the bonds, at final maturity, unless they have been converted previously, will be redeemed and the claim represented by the bonds released and extinguished.

- The instrument will only be settled in the Issuer's own equity instruments and is a non-derivative since it is not required to deliver a variable number of own instruments. Therefore, holders of Class A Convertible Bonds will receive a fixed number of equity instruments -a total of 6,127,660 new shares applying the contractual exchange ratio after the reverse split explained in section b)- (previously 306,382,979 new shares), considering that:

- Since any modification of the Company's capital is considered remote, the contractual obligations assumed in the refinancing agreement, mainly that the Company cannot adopt any resolutions or carry out any transaction that modify the Issuer's share capital except where they relate to the exercise of the Right of Conversion of the Bondholders, imply that share capital is fixed, fulfilling the condition of fixed-for-fixed conversion.

- Considering that the Class B Convertible Bonds will never be converted before the Class A Convertible Bonds, given the nature and condition of the Class B Convertible Bonds:

    a) The valuation of the Class B Convertible Bonds indicates a lower value, so their conversion is considered remote.

    b) The Group's business plan considers conversion of the Class B Convertible Bonds before year four to be remote.

    c) Even if the share price rises, the possibility of converting the Class B Convertible Bonds in year two is considered remote, since the higher the value of the Group, the greater the number of shares received by the bondholders and, accordingly, the higher the percentage of share capital and value of the Group the holders will receive, which is not the case with the Class A Convertible Bonds.

The independent expert's initial valuation concluded that the Class A Convertible Bonds were worth €8,093 thousand, which was recognised in equity.

17. Share-based payments

No share delivery plan was agreed in 2019 or 2018.

18. Retained earnings and other reserves

Movements in items of "Reserves" were as follows:

	€ thousand					
	Legal reserve in the parent	**Revaluation reserve Royal Decree-Law 7/1996**	**Other parent company reserves**	**Reserves in consolidated companies and valuation adjustments**	**Profit/(loss)**	**Total**
At 1 January 2018	**16,000**	**958**	**(51,725)**	**68,827**	**(254,496)**	**(220,436)**
Distribution of 2017 profit	-	-	(227,522)	(26,974)	254,496	-
Capital reduction	(16,000)	(958)	95,518	-	-	78,560
Other movements charged to equity	-	-	(9,018)	(28,945)	-	(37,963)
Profit/(loss) for the year	-	-	-	-	99,430	99,430
At 31 December 2018	-	-	**(192,747)**	**12,908**	**99,430**	**(80,409)**
Distribution of 2018 profit	6,399	-	57,593	35,438	(99,430)	-
Capital reduction	-	-	122,352	-	-	122,352
Other movements charged to equity	(6,399)	-	9,715	(27,116)	-	(23,800)
Profit/(loss) for the year	-	-	-	-	1,388	1,388
At 31 December 2019	**-**	**-**	**(3,087)**	**21,230**	**1,388**	**19,531**

19. Interim dividend

No interim dividend was paid in 2019 or 2018.

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 Bound Parties 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 (Note 22) in an amount equal to the dividend to be distributed.

20. Non-controlling interests

Movements in "Non-controlling interests" were as follows:

	€ thousand	
	2019	**2018**
Opening balance	**(36,489)**	**(13,807)**
Profit/(loss) for the year	3,554	(24,238)
Distribution of dividends	(15)	(112)
Additions	-	907
Other movements	16,499	761
Closing balance	**(16,451)**	**(36,489)**

The distribution by company is as follows:

	€ thousand	
Company	**2019**	**2018**
Felguera IHI, S.A.	-	(17,645)
Duro Felguera Argentina, S.A.	(17,012)	(19,445)
Felguera Tecnologías de la Información, S.A.	525	545
Felguera-Diavaz Proyectos México, S.A. de C.V.	(22)	(2)
Operación y Mantenimiento Solar Power, S.L.	8	8
DF Saudí	50	50
	(16,451)	**(36,489)**

As described in Note 2, in 2019 the non-controlling shareholder of subsidiary Felguera IHI, S.A. exited the company, making it a wholly-owned Group subsidiary.

21. Deferred income

The movement in "Deferred income" was as follows:

	€ thousand					
	Opening balance	**Additions**	**Transfer to profit/(loss)**	**Derecognitions**	**Other movements**	**Closing balance**
2018						
Grants	6,631	670	(3,003)	(21)	(17)	4,260
2019						
Grants	4,260	-	(390)	-	(24)	3,846

In 2019, this item included €1,512 thousand (2018: €1,592 thousand) resulting from the update at year-end of loans with subsidised interest rates pending transfer to profit or loss which will be carried out in coming years based on the depreciation of the assets financed by these loans.

The breakdown of capital grants is as follows:

Granting entity	€ thousand	Purpose
Ministry of Education	1,307	Building in Gijón Technology Park
Ministry of Industry and Energy	185	CPI La Felguera building
I.F.R.	114	Warehouse in the Silvota industrial park
Ministry of Industry	213	New reactor manufacturing process
Principality of Asturias	154	Investment in bending machine
Ministry of Industry	164	Capital investment
Ministry of Industry	90	New welding processes
Other grants	1,619	
	3,846	

These are basically grants received for investment in capital goods. The conditions attached when the grants were awarded have been complied with.

22. Borrowings

	€ thousand	
	2019	**2018**
Non-current		
Convertible bonds	-	8,069
Bank borrowings	85,000	85,000
Finance lease liabilities	25	-
Other loans	4,882	6,812
	89,907	**99,881**
Current		
Bank borrowings	7,654	2,321
Finance lease liabilities	39	-
Interest payable and other financial liabilities	2,327	4,374
	10,020	**6,695**
Total borrowings	**99,927**	**106,576**

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	€ thousand	
	2019	**2018**
Euro	92,273	102,879
US dollars	7,654	1,673
Indian rupee	-	2,024
	99,927	**106,576**

The maturity of non-current borrowings is as follows:

	€ thousand	
	2019	**2018**
Between 1 and 2 years	16,893	2,129
Between 2 and 5 years	72,038	96,352
More than 5 years	976	1,400
	89,907	**99,881**

a) Convertible bonds

The total nominal amount of the 14,227,267,955 Class B Convertibles Bonds is €142,272,679.55, with a nominal amount of €0.01 each, convertible into newly issued shares of the Issuer of the same class and series as the ordinary shares of the Company currently outstanding. The maximum duration is five years from the effective date.

Class B Convertible Bonds give holders the right to receive a number of newly issued shares whose amount, calculated in terms of the volume weighted average price of ordinary shares during the six months immediately prior to the start of each conversion window, is equal to 30% of the amount by which the Issuer's average stock market capitalisation exceeds the Minimum Capitalisation Amount (= €215 million). However, Class B Convertible Bonds may not, in any case, after full conversion result in the delivery to their holders of newly issued Ordinary Shares representing more than 29% of the Company's share capital after the conversion of all the Class B Convertible Bonds.

In addition, to exercise the conversion right for this class of bonds, the Issuer's average stock market capitalisation, calculated by multiplying: (i) the total number of the Company's ordinary shares by the (ii) volume weighted average price (VWAP) of the Company's shares over the six months immediately prior to the related conversion window, must exceed a minimum threshold (€236 million).

According to this paragraph, the maximum number of ordinary shares to be issued as a result of the exercise of conversion rights on all of the bonds will be determined at each conversion window in accordance with the following formula:

Number of ordinary shares arising from the conversion of Class B Convertible Bonds

$$\left[min\left(\frac{M * 30\% * (VWAP_{6M} * N - X)}{VWAP_{6M}}; N * \frac{29\%}{1 - 29\%}\right)\right]$$

- **M** is a multiple that includes a factor for potential adjustments to the Conversion Price of the Class B Convertible Bonds as provided for in sections (b) and (d) of Term and Condition 4.2 (at the date of execution of the public deed and until an adjustment, M=1).

- **$VWAP_{6M}$** (or PMP in Spanish) is the volume-weighted average price of ordinary shares in the six months immediately prior to the start of each conversion window, which will be adjusted by the Correction Factor if, during the period of six months immediately prior to the start of each conversion window, any of the circumstances described in sections *(a)* to *(d)* of Term and Condition 4.2 arises, with the adjustment made until the last trading date of the Ordinary Shares carrying rights at each related event.

- **N** is the number of Ordinary Shares of the Issuer, which will be adjusted by the Correction Factor if, during the six months immediately prior to the start of each conversion window, any of the circumstances described in sections *(a)* to *(d)* of Term and Condition 4.2 arises.

- **X** is the Minimum Stock Market Capitalisation, adjusted by the Correction Factor if, during the six months immediately prior to the start of each conversion window, any of the circumstances described in sections (a) to (d) of Term and Condition 4.2 arises.

The **Conversion Price** (Cp) of Class B Convertible Bonds is calculated at each conversion window in accordance with the following formula:

$$Cp = \frac{\textit{Nominal amount of Class B Convertible Bonds}}{\textit{Number of ordinary shares arising from conversion of the Class B Convertible Bonds}}$$

The Group has concluded that the Class B Convertible Bonds are debt instruments (financial liability) given the following circumstances:

- They do not contain a contractual obligation to deliver cash or another financial asset since the bonds, at final maturity, unless they have been converted previously, will be redeemed and the claim represented by the bonds released and extinguished.

- The instrument will only be settled in the Issuer's own equity instruments, but in this case the amount of own instruments is variable, contingent on:

    - First, exceeding the minimum market capitalisation threshold of €236 million; and

    - Second, if this threshold is exceeded, the number of shares to be issued will depend directly on the Group's market capitalisation (measured as the Issuer's number of ordinary shares multiplied by the volume weighted average price of an ordinary share in the six months immediately prior to the start of each conversion window) at each conversion window and, therefore, depends on the weighted average (quoted) price of the shares on the continuous market during the observation period.

However, given the fact that the number of shares to be issued is variable implies the existence of a separable embedded derivative, the Group has elected the alternative of not separating the embedded derivative and classifying the entire instrument at fair value through profit or loss.

The Group has reviewed the volatility criteria used to calculate the valuation of the Class "B" Bonds and according to the opinion issued by an independent expert on 13 January 2020, these bonds were valued at €0 thousand (2018: €8,069 thousand). Accordingly, the Group recorded a positive financial result of €8,069 thousand. For the measurement, a binomial tree was developed and a weighted average quoted price of the last six months was considered, along with spot price volatility of 145.8%, average weighted price volatility for the last six months of 12.8%, as obtained from historical $VWAP_{6M}$ figures contained in a time window equivalent to the remaining life of the Convertible Bonds, and a risk-free interest rate curve based on the EONIA rate.

(€ thousand)

b) Bank borrowings

This item includes mainly the syndicated loan arising from the agreement signed on 21 June 2018 between the parent company and its main banks. This is a 5-year loan with a 2-year grace period bearing interest at the Euribor rate +2% from years 1 to 3, and Euribor +3% from years 3 to 5. The repayment schedule for the syndicated loan includes repayment of €15,000 thousand in 2021, €20,000 thousand in 2022 and €50,000 thousand in 2023.

The following table provides a breakdown of the loan by financial institution:

Institution	Resulting liability affected post-restructuring
Banco Bilbao Vizcaya Argentaria, S.A.	2,806
Banco Cooperativos Español, S.A.	3,195
Banco Popular Español, S.A. (currently Banco Santander, S.A.)	18,050
Banco Sabadell, S.A.	7,348
Banco Santander, S.A.	20,573
Bankia, S.A.	12,764
Caixabank, S.A.	12,273
Liberbank, S.A.	7,991
	85,000

The syndicated financing agreement includes corporate guarantees from several Group companies, a pledge on corporate bank accounts, a pledge or obligation to pledge rights to receivables from lawsuits and litigation related to the Termocentro and Vuelta de Obligado projects, a pledge on proceeds from potential disposals of certain assets (Note 6) and a pledge on shares of certain investees. The borrowers of the syndicated loan have received a waiver from the financial institutions to use the proceeds from the Roy Hill project lawsuit and from the potential disposals of certain assets.

The syndicated loan is subject to compliance with the debt ratio (gross financial debt/ EBITDA) from the year ended 31 December 2019. The borrowers in the syndicated loan have been given a waiver from the financial institutions on compliance with the debt ratio at 31 December 2019.

Date	Multiple
30 June 2020	3.20x
31 December 2021	1.54x
30 June 2022	1.14x

At the date of authorisation for issue of these financial statements, and following the events that have been unfolding in 2020 in connection with the COVID-19 pandemic, the directors do not expect the debt ratio to be met by 30 June 2020, although a waiver is expected to be obtained before that date.

c) Draw-downs on credit accounts and discounting facilities

Interest rates paid on draw-downs from credit accounts and bill discounting are as follows:

	2019	**2018**
Euro	-	0.9%-3%
US dollars	3.48%	-

At 31 December 2019, the Group had no credit facilities.

d) Other loans

"Other loans" mainly includes the updated debts with official bodies resulting from the loans received from "CDTI", "MINER", "Ministry of Industry, Tourism and Commerce", "PROFIT", "FIT" and "FICYT", and do not bear any interest.

The effect of discounting the interest-free loans is recognised in "Deferred income" (Note 21), which will be released to profit or loss as the subsidised assets are depreciated.

23. Trade and other payables

	€ thousand	
	2019	**2018**
Suppliers	184,164	194,072
Amounts due to related parties (Note 38)	17	17
Other payables	3,872	13,477
Advances received for contract work	67,188	140,961
Social security and other taxes	5,167	16,857
	260,408	365,384
Non-current portion	-	-
	260,408	**365,384**

The amounts of trade and other payables are denominated in the following currencies:

	€ thousand	
	2019	**2018**
Euro	138,734	232,055
Algerian dinar	31,684	21,803
US dollar	27,290	48,498
Mexican peso	12,388	12,097
Indian rupee	6,093	12,921
Argentine peso	6,004	15,116
Romanian new leu	2,446	408
Peruvian nuevo sol	1,723	692
Australian dollar	30,903	14,586
United Arab Emirates dirham	1,315	-
Chilean peso	898	1,326
Brazilian real	70	107
Canadian dollar	67	88
Pound sterling	39	196
Japanese yen	-	2,696
Chinese yuan	-	2,327
Other	754	468
	260,408	**365,384**

Information on average payment period to suppliers. Third Additional Provision "Disclosure requirement" of Law 15/2010, of 5 July

Law 15/2010 of 5 July establishes a maximum payment period of 60 days for companies to pay their suppliers as from 1 January 2013, in accordance with Transitional Provision Two of that law.

In accordance with the Resolution of 29 January 2016 of the Spanish Institute of Accounting and Accounts Auditing (ICAC) regarding disclosures in the notes to financial statements in relation to the average supplier payment period in commercial transactions, the required information is as follows:

	Days	
	2019	**2018**
– Average supplier payment period	239.01	190.42
– Ratio of transactions paid	177.19	118.90
– Ratio of transactions outstanding	439.19	353.47

	€ thousand	
	2019	**2018**
– Total payments made	180,203	198,122
– Total payments outstanding	55,653	86,897

The calculation of the average period for payment to suppliers would be 157 days if we were to exclude the Djelfa project, for which the memorandum of understanding has yet to be signed in the form of an addendum to the contract (Note 4h), and also a supplier under the Termocentro project, with whom a back-to-back mirror contract has been signed.

24. Deferred taxes

Deferred tax assets and liabilities are as follows:

	€ thousand	
	2019	**2018**
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	20,815	34,401
Deferred tax assets to be recovered within 12 months	9,491	7,242
	30,306	**41,643**
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	(20,873)	(34,812)
Deferred tax liabilities to be recovered within 12 months	(9,311)	(7,294)
	(30,184)	**(42,106)**
Net	**122**	**(463)**

The gross movement on the deferred income tax account is as follows:

	€ thousand	
	2019	**2018**
Opening balance	**(463)**	**(2,719)**
(Charge)/credit to income statement	(1,820)	1,033
Adjustment / Decreases	536	(129)
(Charge)/credit to reserves	1,869	1,352
Closing balance	**122**	**(463)**

The movement in deferred tax assets and liabilities in the year is as follows:

	€ thousand			
Deferred tax assets	**Provision for employee benefit obligations**	**Tax losses and deductions**	**Other**	**Total**
At 1 January 2018	**-**	**-**	**11,032**	**11,032**
(Charge)/Credit to the income statement	-	33,275	(2,818)	30,457
Disposals	-	-	(582)	(582)
Charge/(Credit) to equity	-	-	736	736
At 31 December 2018	**-**	**33,275**	**8,368**	**41,643**
(Charge)/Credit to the income statement	**-**	(9,312)	(1,154)	(10,466)
Disposals	**-**	-	-	-
Charge/(Credit) to equity	-	-	(871)	(871)
At 31 December 2019	**-**	**23,963**	**6,343**	**30,306**

"Other" includes deferred tax assets amounting to €6,355 thousand (2018: €8,368 thousand) related mainly to warranties, holidays, and project losses.

Assets for the carry forward of unused tax losses are recognised to the extent that it is probable that taxable profit will be realised enabling their utilisation, as explained below. With effect from 1 January 2015, following the entry into force of Corporate Income Tax Law 27/2014, of 27 November, there is no limit on the utilisation of tax loss carryforwards.

On 3 December 2016, Royal Decree Law 3/2016, of 2 December, adopting certain tax measures to consolidate public finances and other urgent social measures became effective, placing a limit on the offset of tax loss carryforwards of 25% for companies with net revenue of €60 million or more.

	€ thousand			
Deferred tax liabilities	**Gains on transactions with non-current assets**	**Asset revaluation**	**Other**	**Total**
At 1 January 2018	**167**	**3,376**	**10,208**	**13,751**
Charge/(Credit) to the income statement	-	-	29,424	29,424
Disposals	-	-	(454)	(454)
Charge/(Credit) to equity	-	47	(662)	(615)
At 31 December 2018	**167**	**3,423**	**38,516**	**42,106**
Charge/(Credit) to the income statement	-	-	(8,646)	(8,646)
Disposals	-	-	(536)	(536)
Charge/(Credit) to equity	(130)	(1,082)	(1,528)	(2,740)
At 31 December 2019	**37**	**2,341**	**27,806**	**30,184**

The Group recognised a deferred tax liability in 2018 of €33,275 thousand for the accounting income related to the conversion of the Class B Convertible Bonds for €134,204 thousand arising from the refinancing agreement signed by the Group and effective 27 July 2018. This agreement was ratified judicially by Mercantile Court 3 of Oviedo on 26 June 2018 in accordance with Additional Provision 4 of Insolvency Act 22/2003, of 9 July.

According to article 11.3 of Corporate Income Tax Law 27/2014, of 27 November, where this income exceeds the full amount of financial expenses pending recognition, it is included in the debtor's tax base in proportion to the financial expenses recognised in the tax period relative the total financial expenses pending recognition arising from the debt.

Moreover, the limit for the offset of tax loss carryforwards of 25% of the aforementioned tax base is not applicable to the amount of income arising from tax relief or deferments granted in an agreement with the taxpayers' creditors.

As a result, since the Spanish tax group had unused tax losses at 31 December 2018 arising from prior years amounting to €176,101 thousand, the tax income recognised could be offset in full with those tax losses. This justifies the recognition in 2018 of a deferred tax asset for the same amount as the liability recognised (€33,275 thousand), as provided for in paragraphs 24 and 24 of IAS 12, leaving unused tax losses of €43,001 thousand.

In 2019, following the recognition of the related borrowing costs, the adjustment made for the proceeds from Class B Convertible Bonds, of €37,246 thousand, was partially reversed, giving rise to a movement of €9,312 thousand in both the related deferred tax liability and the deferred tax asset for the offset tax loss carryforwards.

Of the recognised deferred tax liabilities, €30,182 thousand related to the Spanish tax group.

25. Employee benefit obligations

	€ thousand	
	2019	**2018**
Non-current obligations		
Coal vouchers	104	104
Other obligations with employees	1,224	1,413
	1,328	**1,517**
Current obligations		
Salaries payable	4,669	6,882
Profit sharing and bonus	-	522
	4,669	**7,404**

a) Coal vouchers (Note 2.21.a)

The movement in the liability recognised in the consolidated balance sheet is as follows:

	€ thousand		
	Serving personnel	**Retired personnel**	**Total**
At 1 January 2018	**-**	**109**	**109**
Provisions	-	4	4
Payments	-	(9)	(9)
Reversals	-	-	-
At 31 December 2018	**-**	**104**	**104**
Provisions	-	-	-
Payments	-	-	-
Reversals	-	-	-
At 31 December 2019	**-**	**104**	**104**

Annual provisions for coal vouchers are calculated based on actuarial studies described in Note 2.21.a.

To measure these obligations, the Group has applied its best estimates based on an actuarial study performed by an independent third party in which the following assumptions have been applied: mortality table PERM/F 2000P and a technical interest rate of 0.74% p.a. (2018: 1.28%).

b) Other obligations with employees (Note 2.21.b)

The movement in the liability recognised in the consolidated balance sheet is as follows:

	€ thousand
At 1 January 2018	**1,328**
Provisions charged to profit or loss	754
Amounts used	(334)
Surplus	(132)
Transfers	(203)
At 31 December 2018	**1,413**
Provisions charged to profit or loss	257
Amounts used	(399)
Surplus	(54)
Transfers	7
At 31 December 2019	**1,224**

To measure these obligations, the Group has applied its best estimates based on an actuarial study performed by an independent third party in which the following assumptions have been applied: mortality table PERM/F 2000P and a technical interest rate of 0.74% p.a. (2018: 1.28%).

26. Provisions for other liabilities and charges

	€ thousand			
	Provision for completion of works	Trade provisions	Other provisions	Total
At 31 December 2018	**67,843**	**9,630**	**41,976**	**119,449**
Charge to income statement				
- Provisions	10,959	37,918	2,002	50,879
- Amounts used	(116)	-	(7,804)	(7,920)
- Unused amounts reversed	(43,835)	(19)	(29,602)	(73,456)
- Other movements	2,474	(28,886)	819	(25,593)
At 31 December 2019	**37,325**	**18,643**	**7,391**	**63,359**

Changes and movements in 2019 related mainly to:

Provision for completion of works

- Including provisions for project losses of €9,860 thousand and provisions for warranties and completion of works of €1,099 thousand.
- Unused amounts reversed relate mainly to the amounts utilised for the provision of losses incurred as the related projects are executed, for €18,835 thousand, and the cancellation of guarantees for €6,366 thousand. In addition, and following the favourable rulings on the GPL II and RVR projects in India, a total of €5,470 thousand was reversed, along with €13,164 thousand in connection with the amicable settlement of the contract for the Nueva Terminal de ILO project, which prompted the directors to re-estimate the project costs and, accordingly, the stage of completion and profitability.
- The amounts shown under "Other movements" relate primarily to reclassifications of the current liability related to projects.

Other trade provisions

- Provisions totalling €37,918 thousand to cover the risk of an adverse ruling being delivered in the arbitration proceedings currently under way with two suppliers in connection with the Roy Hill project (Note 36).
- Other movements includes mainly the reclassification as an account payable of the amount associated with one of the arbitration proceedings discussed previously in relation to the Roy Hill project, following the adverse ruling handed down (Note 36).

Other provisions

- Provisions totalling €878 thousand to cover employee benefit commitments and the cost of relocating offices, as well as provisions for legal proceedings and other matters amounting to €1,124 thousand.
- Reversals amounting to €23,326 thousand related to the risks of the Roy Hill project (Note 36); €5,257 thousand, mainly because various disputes with suppliers in India have now been resolved; and €1,019 thousand to cover occupational hazards.
- Other payments amounting to €7,477 thousand due to the application of the provision posted for an Oil&Gas project in Colombia, and other payments relating to occupational hazards and risks with suppliers amounting to €327 thousand.

The breakdown of provisions for completion of works and other trade provisions is basically as follows:

	€ thousand	
	2019	**2018**
Provisions for warranties	10,810	16,335
Provisions for onerous contracts	23,714	46,178
Provisions for other liabilities and penalties	21,444	14,960
	55,968	**77,473**

The breakdown of "Other provisions" and the expected schedule for the outflow of the related economic benefits are as follows:

	Other provisions	
	€ thousand	**Estimated schedule**
Litigation with suppliers	2,992	Next 6 months
Liabilities and charges due to labour disputes	1,465	Between 12 and 24 months
Liabilities and charges due to legal proceedings	2,934	Between 6 months and 3 years
	7,391	

Transfers to and reversals of provisions for other liabilities and charges are included in "Other gains/(losses) net" in the income statement (Note 30).

	€ thousand	
	2019	**2018**
Analysis of total provisions:		
– Non-current	12	23,174
– Current	63,347	96,275
	63,359	**119,449**

27. Revenue

a) Revenue

The breakdown of revenue by activity is as follows:

	€ thousand	
	2019	**2018**
Energy	177,105	142,995
Mining & Handling	107,191	131,494
Oil & Gas	48,496	47,132
Specialised Services	39,888	68,177
Manufacturing	13,757	19,459
Other	6,472	12,068
Revenue	**392,909**	**421,325**

"Other" includes the revenue by companies not assigned to a specific business activity, mainly security and defence and industrial control, for a total of €4,418 thousand (2018: €11,193 thousand, relating to engineering and systems integration activities in the civil communications, aeronautical and maritime sectors, together with the other activities just described).

The Group's revenue is denominated in the following currencies:

	€ thousand	
	2019	**2018**
Euro	268,302	206,748
Algerian dinar	17,288	13,766
United Arab Emirates dirham	19,893	2,246
US dollar	78,468	160,580
Australian dollar	-	2,537
Canadian dollar	134	7,410
Argentine peso	3,113	10,919
Peruvian nuevo sol	5,029	5,378
Other currencies	682	11,741
	392,909	**421,325**

b) Foreign currency transactions

The amounts of foreign currency transactions are as follows:

	€ thousand	
	2019	**2018**
Sales	124,607	214,577
Purchases	(92,489)	(138,540)
Services received	(24,349)	(30,491)

28. Employee benefits expense

	€ thousand	
	2019	**2018**
Salaries and wages	(68,746)	(77,547)
Termination benefits	(1,675)	(4,529)
Social security costs	(19,240)	(19,721)
Other employee benefits expenses	146	(679)
	(89,515)	**(102,476)**

29. Operating expenses

	€ thousand	
	2019	**2018**
Leases	(7,989)	(8,029)
Repairs and maintenance	(1,707)	(1,360)
Independent professional services	(21,218)	(26,367)
Transportation	(5,032)	(9,432)
Insurance premiums	(2,157)	(3,145)
Banking and similar services	(6,103)	(4,480)
Advertising	(187)	(366)
Utilities	(2,435)	(5,668)
Other services	(46,341)	(43,725)
	(93,169)	**(102,572)**

30. Other gains/(losses) net

	€ thousand	
	2019	**2018**
Capital grants	390	3,003
Other operating income	1,173	295
Operating grants	5	50
Gain/(loss) on disposals of assets	2,314	(17)
Impairment and losses on assets	(2)	-
Own work capitalised (Notes 7 and 9)	640	545
Taxes	(1,959)	(3,941)
Losses, impairment and changes in trade provisions	(13,103)	(51,523)
Other	30,410	896
	19,868	**(50,692)**

In 2019, gains on disposals recognised related mainly to the sale of the hydrocarbon storage plant in Cartagena, classified as held for sale in 2018, which was carried out in the first half of 2019. Also recognised were losses on the disposal of other real estate assets classified as held for sale in the first half of 2019, whose sale was carried out in the second half of the year (Note 6).

"Losses, impairment and changes in trade provisions" relates primarily to the net change in provisions explained in Notes 12 and 26.

The "Other" line reflects mainly the positive outcome of the disputes in connection with the Roy Hill project, including the settlement agreement (see Note 36).

31. Net finance income/(cost)

	€ thousand	
	2019	**2018**
Finance expense and similar costs	(9,647)	(10,689)
Income for:		
– Financial interest	4,332	8,230
– Financial restructuring (Note 22)	-	214,942
– Gain of purchasing power due to hyperinflation	3,243	1,904
	(2,072)	214,387
Net foreign exchange difference	(759)	(705)
Change in fair value of financial instruments	8,069	(10)
Total net finance income/(cost)	**5,238**	**213,672**

The gain of purchasing power due to hyperinflation reflects the impact of inflation on the monetary items held by the Group in Argentina after the country's classification as a hyperinflationary economy (Note 2.5 d)).

The net financial result in 2018 reflects the positive impact of the conversion of the convertible bonds (Note 22 a)) for the difference between the nominal amount of the liability converted of €233,009 thousand and the fair value of the bonds of €16,162 thousand, net of transaction costs.

Change in the fair value of financial instruments includes the financial income resulting from changes in the valuation of class "B" convertible bonds (Note 22).

32. Income tax expense

	€ thousand	
	2019	**2018**
Current tax	(640)	(1,968)
Foreign taxes	1,930	(1,885)
Adjustments to current tax in respect of prior years	794	(112)
Adjustments to deferred tax in respect of prior years (Note 24)	(314)	78
Current year deferred tax (Note 24)	(1,507)	955
Effect of change in tax rate (Note 24)	-	-
Other	-	(768)
	263	**(3,700)**

The reconciliation of tax expense to accounting profit is as follows:

	€ thousand	
	2019	**2018**
Consolidated profit before tax	4,679	78,892
Tax at 25%	(1,170)	(19,723)
Inter-group/branch adjustments and eliminations	(6,490)	343
Other non-deductible expenses	(2,023)	12,583
Adjustment in respect of prior years	-	531
Foreign taxes	1,930	(1,885)
Use of tax loss carryforwards	8,513	-
Unrecognised tax losses	-	(28,708)
Derecognition of tax assets of prior years	(314)	33,275
Other	(183)	(116)
Tax charge	**263**	**(3,700)**

The reconciliation between consolidated accounting profit and taxable income is as follows:

	€ thousand	
	2019	**2018**
Consolidated profit/(loss)	1,388	99,430
Share of non-controlling interests	3,554	(24,238)
Income tax	263	(3,700)
Consolidated accounting profit/(loss) for the year before tax	4,679	78,892
Permanent differences	(132)	(50,332)
Temporary differences	33,280	(133,845)
Preliminary tax base	37,827	(105,285)
Utilisation of unused tax losses of the tax group	(42,034)	-
Utilisation of unused tax losses outside the tax group	(2,048)	(37,326)
Taxable income/(tax loss):	**(6,255)**	**(142,611)**
Attributable to the tax group	7,589	(61,590)
Positive, non-tax group	4,995	8,745
Negative, non-tax group	(18,839)	(89,766)
	(6,255)	**(142,611)**

The effective tax rate was -5.62% (2018: 4.69%).

Net temporary differences in the individual companies relate basically to the different treatment for accounting and tax purposes of the charge to and reversal of provisions, as well as the deferral of accounting income related to the conversion of the Class B Convertible Bonds.

Duro Felguera, S.A. and the Spanish subsidiaries in which it directly or indirectly holds an interest of over 75% pay income tax under the consolidated tax scheme. Under this scheme, the taxable amount is calculated on the basis of the consolidated results of Duro Felguera, S.A. and these subsidiaries.

Under the special tax consolidation system, the tax group reporting the taxable income is treated as single taxpayer for all purposes.

However, each consolidating company must calculate its own tax liability as if it were filing separately and account for corporate income tax payable or refundable (tax credit) on the basis of whether it contributes a profit or a loss.

The remaining companies outside the tax group are open to inspection for 2015 and subsequent years in respect of corporate income tax, and 2016 and subsequent years in respect of value added tax, income tax (earned income, professional fees and investment income) and non-resident income tax, and the last four years in relation other taxes applicable to them.

a) On 21 January 2015, the Spanish taxation authorities (Agencia Estatal de la Administración Tributaria) notified the commencement of an audit of Tax Group 22/1978, the parent of which is Duro Felguera, S.A., in respect of corporate income tax for 2010 to 2012, and VAT Group 212/08, also headed by Duro Felguera, S.A., in respect of value added tax for 2011 to 2012, as well as of income tax withholding (earned income and investment income) and non-resident income tax for 2011 and 2012.

   As a result of these tax audits, the following settlement agreements were received:

   - Settlement agreement whereby Duro Felguera, S.A. must pay €101 million in corporate income tax, plus €22 million in late-payment interest. The settlement agreement is based primarily on the taxation authorities' disagreement over the Group's use of the exemption of foreign income obtained by temporary joint ventures operating abroad (specifically, UTE Termocentro), as provided for in article 50 of Legislative Royal Decree 4/2004, of 5 March, approving the Consolidated Income Tax Act in effect in the periods covering the tax inspections. An appeal against the settlement agreement was lodged with the Central Tax Appeals Board (TEAC) on 9 August 2017, with the Company filing its statement of case on 8 February 2019.

   - Settlement agreement dated 19 July 2017, requiring Duro Felguera to pay €2,552 thousand in VAT, plus €601 thousand in late-payment interest. The Company lodged an appeal against that agreement on 24 August 2017, going on to present its statement of case on 8 February 2019.

   - Settlement agreement dated 17 July 2017, requiring Duro Felguera to pay €326 thousand in corporate income tax – related party transactions, plus €75 thousand in late-payment interest. A tax appeal against that agreement was filed with the TEAC.

- Agreement to resolve sanctioning proceedings against UTE TERMOCENTRO, as notified on 1 February 2018, ordering it to pay €23.04 million. The sanction imposed is based on the authorities' disagreement over the taxable income charged by UTE Termocentro to its members. An appeal against the proposed sanction was lodged with the TEAC on 19 February 2018, with the Company filing its statement of case on 11 March 2019.

- Settlement agreement dated 6 June 2017, requiring UTE TERMOCENTRO to pay €624 thousand in personal income tax, plus €151 thousand in late-payment interest. The Company lodged an appeal against that agreement before the TEAC on 24 August 2017, going on to present its statement of case on 7 March 2019.

- Settlement agreement for VAT dated 6 June 2017, requiring no payment by UTE TERMOCENTRO. The Company lodged an appeal against that agreement before the TEAC on 05 July 2017, going on to present its statement of case on 11 March 2019.

- Settlement agreement for corporate income tax dated 6 June 2017, requiring no payment by UTE TERMOCENTRO. The Company lodged an appeal against that agreement before the TEAC on 5 July 2017, going on to present its statement of case on 11 March 2019.

- Agreement for resolution of sanctioning proceedings for personal income tax against UTE TERMOCENTRO, requiring payment of €432 thousand. The Company lodged an appeal before the TEAC on 29 January 2018, going on to present its statement of case on 11 March 2019.

The Company's estimate at the date of the TEAC's ruling on these cases is that it will take a year-and-a-half to two years after written allegations are filed. A potential adverse ruling could be the subject of an administrative appeal before the National Court.

The Company did not recognise any liability related to these procedures since in the management's opinion, and based on reports issued by independent third parties in prior years and up to the consolidated reporting date, the arguments are sufficiently strong to expect a ruling in the Company's favour. These 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.
- Delays in the proceedings: the proceedings were extended by a year and we have been attributed unjustified delays 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 Company is of the opinion that the National Court's ruling in this case supports our position in the case at hand.

To date, the Company has not made any payments related to these proceedings. The taxation authorities agreed a suspension with the contribution of real estate collateral for the amounts owed from the settlement agreements of VAT, personal income-tax withholding and income tax - related party transactions.

Regarding the debt liability from the proposal for settlement of income tax of €101 million, plus €22 million in late-payment interest, on 4 September 2017 the Company requested suspension of enforcement of the settlement agreement while still within the voluntary payment period, contributing real estate collateral worth €29 million and requesting partial waiver of the collateral requirement for the remainder of the debt (€94 million). The central tax appeals board (TEAC) refused to entertain this request for suspension in a resolution dated 30 November 2017.

On 19 January 2018, the Company lodged an administrative appeal before the National Court against the TEAC's resolution. On 9 March 2020, the Company received notice of the judgment delivered by the National Court on 13 February 2020, finding in favour of the Company. The National Court declared the TEAC's decision unlawful and referred the proceedings back to the TEAC for a further decision on the merits of the request for suspension submitted by the Company in September 2017.

Prior to the notification of this favourable ruling, and following the National Court's decision to lift the precautionary suspension as the Company had been unable to furnish collateral for the entire debt, the Company received notice of rejection of its subsidiary request for postponement and new period for payment, which expires on 20 December 2019. Although the Company lodged a tax appeal before the TEAC against this refusal to entertain the postponement and filed a further request for suspension of the debt, the Company received notice of a court order, followed by notice of an attachment against certain real estate assets, some of which had already been mortgaged in favour of the tax authorities.

Once no further appeal or action can be lodged against the National Court's ruling in favour of the Company, in which it referred the proceedings back to the TEAC for a further decision on the Company's original request for suspension, the tax authorities will be forced to cancel and therefore lift both the injunction and the attachments of assets, as well as its refusal to entertain the postponement, all of which were unlawful because a decision had yet to be issued in response to a legitimate request for suspension filed during the voluntary period for payment.

In addition, on 26 July 2018 the Company had presented a new request for suspension before the TEAC on the grounds of a change of circumstances, including a partial waiver of the collateral requirement. In these particular set of proceedings, and prior to a ruling on the matter, the Company has posted mortgage collateral on certain real estate assets worth €19.6 million (appraisal value) in favour of the taxation authorities.

b) On 6 March 2018, the Spanish taxation authorities notified the commencement of an audit of Tax Group 22/1978, the parent of which is Duro Felguera, S.A., in respect of corporate income tax for 2013 and 2014, and VAT Group 212/08, also headed by Duro Felguera, S.A., for the period from 4/2014 to 12/2014, as well as of personal income tax (earned income, professional fees and investment income) and non-resident income tax for said Company for the period from 4/2014 to 12/2014.

As a result of these tax audits, the following settlement agreements were received:

- Settlement agreement dated 14 January 2020, requiring UTE TERMOCENTRO to pay €245 thousand in personal income tax (€202 thousand relating to the actual tax and €43 thousand to late-payment interest). Although the Company decided to settle the debt within the voluntary period for making payment, on 12 February 2020 it filed a tax appeal against the settlement agreement before the TEAC.

- - Settlement agreement for corporate income tax issued on 14 January 2020 and relating to the joint venture UTE TERMOCENTRO, requiring no payment but setting non-tax exempt taxable income to be charged by the joint venture to the venturers of €58,865 thousand for 2013 and €34,226 thousand for 2014, with an estimated impact on consolidated income tax for 2013 and 2014 of €25,208 thousand, as explained in the following point. On 12 February 2020 the Company filed a tax appeal against the settlement agreement before the TEAC.

- Document dated 30 October 2020 disputing the proposed tax settlement that Duro Felguera, S.A. had been asked to pay, amounting to €249,923 thousand in corporate income tax (€25,208 thousand relating to the actual tax and €4,715 thousand to late-payment interest). The Company filed a written statement of case protesting the tax assessment before the deadline and is currently awaiting the settlement agreement.

- Document dated 30 October 2020 disputing the proposed tax settlement that Duro Felguera, S.A. had been asked to pay, such settlement amounting to €74 thousand in corporate income tax – related parties (€63 thousand relating to the actual tax and €11 thousand to late-payment interest). The Company is currently awaiting a settlement agreement from the authorities.

- Document accepting the proposed tax settlement that Duro Felguera, S.A. had been asked to pay, such settlement amounting to €130 thousand in value added tax (€112 thousand relating to the actual tax and €18 thousand to late-payment interest). The Company has now settled the debt within the voluntary period for payment.

- Document accepting the value added tax that UTE TERMOCENTRO had been asked to pay and the corporate income tax that Duro Felguera, S.A. and DF Mompresa, S.A. had been asked to pay, with no tax payable in either case.

These tax assessments are provisional, since the inspection has been partially suspended in relation the part affected by the criminal preliminary ruling per Order of 27 February 2019, issued by Central Examining Court 2. In any event, the part affected by this criminal preliminary ruling in financial years 2013 and 2014 is of only minor significance, and so we do not expect any significant changes to be made to the tax settlement agreements arising from this circumstance.

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 Company’s opinion and that of its 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.

c) Duro Felguera Do Brasil is also open to inspection of income tax for 2012, which it has appealed and poses a potential tax liability of 30,439,324.61 Brazilian reais. In the opinion of the Company's management and its external tax advisors, it is unlikely that the amount will have to be paid. An inspection of income tax for 2015 has also commenced. It is currently in the phase of providing documentation, so no estimate can be made of the potential liability at present.

33. Earnings per share

a) Basic

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of the company by the weighted average number of ordinary shares in issue during the year (Note 16).

	2019	2018
Profit/(loss) attributable to shareholders of the company (€ thousand)	1,388	99,430
Weighted average number of ordinary shares in issue (thousand)	2,441,556	2,108,449
Basic earnings/(loss) per share (€)	**0.0006**	**0.05**

b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. At 31 December 2019, the Company considered as dilutive potential shares those resulting from a potential conversion of Class A Convertible Bonds into 6,127,660 new shares by virtue of the contractually established exchange ratio following the reverse split described in Note 16 (previously 306,382,979 new shares). At the closing date of these consolidated financial statements, conversion of the Class B Convertible Bonds (Note 22 a) was considered remote.

	2019	2018
Profit/(loss) attributable to shareholders of the company (€ thousand)	1,388	99,430
Weighted average number of ordinary shares in issue (thousand)	2,444,628	2,237,718
Basic earnings/(loss) per share (€)	**0.0006**	**0.04**

34. Dividends per share

No dividend was paid in 2019 or 2018.

35. Cash generated from operations

	€ thousand	
	2019	**2018**
Profit/(loss) for the year	4,942	75,192
Adjustments for:		
– Taxes (Note 32)	(263)	3,700
– Depreciation of property, plant and equipment (Note 7)	3,396	4,785
– Amortisation of intangible assets (Note 9)	2,727	2,898
– Depreciation of investment properties (Note 8)	424	369
– (Profit)/loss on disposal of property, plant and equipment and investment properties (Note 30)	(2,314)	17
– Grants and other deferred income credited to the income statement (Note 30)	(390)	(3,003)
– Net movements in provisions	(8,432)	13,829
– Other movements in financial assets	-	11
– Interest income (Note 31)	(7,575)	(223,172)
– Interest expense (Note 31)	9,647	10,689
– Other changes	23,359	(545)
– Share of loss/(profit) of associates (Note 10)	1,075	177
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Inventories	851	4,752
– Trade and other receivables	135,660	45,593
– Other assets and liabilities	(25,786)	(31,685)
– Trade and other payables	(129,955)	(23,745)
Cash generated from operations	**7,366**	**(120,138)**

In the statement of cash flows, proceeds from sales of property, plant and equipment, intangible assets and investment properties comprise:

	€ thousand	
	2019	**2018**
Profit/(loss) on disposal of property, plant and equipment and investment properties	2,314	(17)
Proceeds from disposal of property, plant and equipment and investment properties	12,826	27,059

36. 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 31 December 2019 and 2018, the Group had extended the following guarantees:

	€ thousand	
	2019	**2018**
For tender proposals	517	1,738
Guarantees in sales contracts in progress	321,358	378,200
Other	1,841	3,645
	323,716	**383,583**

As explained in Notes 7, 8 and 22, the Group has provided certain assets as collateral, and granted pledges and cash restrictions to third parties. Certain projects 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.

From 31 December 2019 to the date of authorisation for issue of these financial statements, a total of €70,752 thousand in collateral provided to third parties in the form of guarantees or deposits has either been cancelled or reduced, such collateral relating to the Termocentro, Cogeneración de Aconcagua, Ilo, Puerto Ventanas and other projects (Note 41).

Group management considers that the risks of litigation, arbitration and claims are reasonably covered by the provisions recognised in these consolidated financial statements at 31 December 2019, and does not expect any further significant liabilities to arise.

Lawsuit by the Special Prosecutor

Regarding the ruling by the Central Examining Court no. 2 of Madrid accepting the charge filed against Duro Felguera, S.A. and other companies by the Special Prosecutor on the grounds of corruption and organised crime over the potential existence of an alleged offence of corruption of a foreign authority or public official, in addition to an alleged crime of money laundering in relation to payments amounting to approximately USD 80.6 million, and also those matters discussed in the annual report for 2018, Central Examining Court no. 2, at the Prosecutor’s request, reached the decision on 27 March 2019 to extend the period for examination of the case by a further 18 months, running from 28 March 2019. However, at the date of authorisation for issue of these financial statements the deadlines have been suspended following the announcement of the state of alarm in the wake of the COVID-19 coronavirus pandemic.

The Group considered that the documentation and other actions included in the case documents provide sufficient justification or contractual evidence of the payments made, as they are based on contractual obligations assumed by individuals duly authorised for their grant in ordinary contracts —the rendering of (advisory and technical assistance) services— and inherent in the activity comprising the Group's objects (given their nature as indivisible or at least complementary to obtaining and executing a major international contract). Further, the existence of this contractual supporting material means that the matter is documented, recorded in the accounts and included in the Group's official and sole accounting system and in its financial statements and annual accounts, which are ultimately scrutinised by the Group's auditors. While the Group holds a positive outlook and view of the potential impact, based on the internal investigation carried out and since it is still in the early stages, based on 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 have authorised, been aware of and/or given consent to payments or granted improper advantages or benefits to authorities or public servants in Venezuela to corrupt them or induce them to infringe upon 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, the Group considers that the measure 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.
The Group has recognised a provision of €529 thousand to cover this risk.

Australia

The Group, through its Duro Felguera Australia, Ltd. ("DFA") subsidiary, was involved in arbitration proceedings in Singapore with SC&T related to the Roy Hill project, claiming AUD 310 million for guarantees unduly enforced, contracted work not paid, work performed outside the contract and not recognised by SC&T Corporation as customer.

On 1 March 2019, the Group received a final partial ruling by the Arbitration Court of Singapore (SIAC). The award requires payment to the Group for all items, plus interest and costs to be stipulated in a further ruling. On 9 July, the SIAC delivered its ruling on interests and costs, again finding in favour of the Duro Felguera Group.

In September 2019, a transactional agreement was entered into between SC&T Corporation and DFA whereby both parties agreed to discontinue the proceedings in progress and undertake new action in relation to the project in exchange for payment of compensation by SC&T Corporation to DFA.

The Group currently is currently pursuing arbitration proceedings with two suppliers. With respect to one of them, an arbitration decision finding against the Group was handed down on 19 December 2019. As a result, the Group recognised a liability for the nominal amount of the decision, although a further decision on interest and costs remains pending. With respect to the other supplier, the associated risk has been estimated on the basis of the legal opinion of a third party.

Meanwhile, at year-end the Group reversed a provision with a third party amounting to €29.2 million to cover the risk of cash outflow and backed by a guarantee from the parent company. The Group had posted this guarantee in order to hold its customer harmless were the third party in the project to lodge a claim. Since the probability of such a claim being lodged was remote at year-end and based on a legal opinion that the parent company's guarantee would expire in February 2020, the Group decided to reverse this provision at 31 December 2019.

As a result of all the events described above, DFA posted a pre-tax loss of €4 million at year-end.

In September, October and November 2019, subsidiary company DFA repaid a loan of A$ 97.4 million (€60.1 million) granted in previous years by Duro Felguera, S.A. This loan had a maximum maturity of 3 March 2020 and included a prepayment clause in favour of Duro Felguera, S.A.

The Company's directors commissioned a legal and solvency analysis from two recognised firms, in accordance with the laws of Australia, in order to determine whether the subsidiary was solvent at the time the loan repayments were made and, therefore, to assess the risk of reimbursement action possibly being pursued against the parent company, Duro Felguera, S.A., and, if such a risk existed, then the probability of such action succeeding. Based on the opinions contained in these reports and in view of the financial support that Duro Felguera, S.A. has been providing to the Australian subsidiary, the directors have concluded that the subsidiary was indeed solvent at the dates on which the various loan repayments were made and has not therefore posted any provision in this respect. The reports acknowledge that at the date the solvency analysis was conducted (31 October 2019), certain information that subsequently came to light in December 2019 was not available (mainly notice of the adverse arbitration award handed down in relation to the dispute ongoing with one of the main subcontractors in the project).

At a Board meeting held on 19 December 2019, the Company's directors decided to discontinue the implicit financial support that the Company had historically been providing to DFA, given the fact that the Group had not secured any further projects in Australia following completion of the Roy Hill project and its subsidiary DFA had therefore become a dormant company. Furthermore, Australia is considered a non-strategic country and the Group has no interest in maintaining a presence there. This decision was ratified at the Board meeting held on 26 February 2020, after receiving the legal opinions that had been requested, and disclosed to the market on 29 February 2020. The voluntary administrator was appointed on 28 February 2020, whereupon the Company effectively relinquished control of the subsidiary in accordance with the laws of Australia. The Group has asked the financial institutions to waive the appointment of an external administrator for DFA, which took place on 28 February 2020, and while that waiver had yet to be approved at the date of preparation of these financial statements, it is expected to be granted shortly.

Although proceedings are still at an early stage and the outcome is far from certain, the Company's legal advisers consider in their reports that the risk of legal action being initiated during the voluntary administration process against the parent company, Duro Felguera, S.A., in an attempt to have all or part of the repatriated amounts returned to the assets of the insolvent company, is less than 50% and that were such legal action to be pursued, the probability of success would be less than 30%.

The voluntary administration period has been extended until 27 September 2020, whereupon the liquidation process will commence if no agreement is reached with the creditors. Legal action against Duro Felguera, S.A. could potentially be brought within three years of the date of appointment of the voluntary administrator, although a judge could agree to extend this period in extraordinary circumstances.

Additional considerations: Reconciliation between consolidated profit before tax for 2019, as published on 29 February 2020, and the profit before tax included in these consolidated financial statements

Certain accounting adjustments have been made to the 2019 earnings published on 29 February 2020, without these having any cash impact, to reflect the valuation of DF Australia's liabilities as amounting to €12.8 million, all of which will be recognised in earnings for the first quarter of 2020.

NOTES TO THE 2019 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

	2019	1Q2020
2019 consolidated profit before tax reported 29/2/2020	**17.3 M€**	
Accounting adjustment for measurement of DF Australia liabilities	-12.8 M€	⟷ 12.8 M€
Other adjustment	-0.1 M€	
2019 consolidated financial statements profit before tax	**4.4 M€**	

In these financial statements at 31 December 2019, the Group has recognised a financial liability for the nominal amount of the unfavourable ruling handed down. Meanwhile, estimated provisions have been updated on the basis of both external and in-house legal opinions, generating a total additional negative effect on consolidated earnings of €12.8 million, which would have applied had the valuation of DFA's liabilities at fair value been applied retrospectively.

This additional negative impact on the year-end accounts is only temporary because on 28 February 2020 a voluntary administrator was appointed and DFA was removed from the scope of consolidation, with all control over the subsidiary therefore relinquished (Note 41). From that moment forward, DFA's liabilities will be settled at the amount of the subsidiary's own assets (fair value), whereupon the Group will reverse, in the results for the first quarter of 2020, the aforementioned amount of €12.8 million, thus generating an additional positive result in the consolidated accounts.

<u>Vuelta de Obligado</u>

On 29 August 2016, an arbitration claim was filed with the Buenos Aires Stock Exchange against customer Central Vuelta de Obligado (CVO) for cost overruns not attributable to the Group sustained while performing the project, such costs amounting to USD 105 million at 31 December 2019.

On 14 August 2017, the Court suspended the arbitration proceedings at the parties' request. The customer provided certification that the plant had come fully on stream on 23 February 2018.

Given the doubts over the outstanding amount not recognised by the customer, on 31 December 2018 the Group recognised impairment of €16,557 thousand on the asset recorded in its accounts, since there were reasonable doubts concerning its recoverability; this same approach was maintained at year-end 2019.

On 28 June 2019, General Electric and CVO asked the arbitration court to reject the proceedings since a transactional agreement was reached, with General Electric unilaterally accepting penalties. This request was admitted by the Court and the arbitration proceeding concluded. The Group was not party to the agreement. Therefore, the temporary joint venture comprising Duro Felguera Argentina S.A. and Fainser S.A asked the Courts to allow them to testify in the case against CVO, since they did not agree with the penalties accepted by General Electric, although this request was denied.

On 27 September 2019, the Company was notified of the commencement of arbitration instigated by Sociedad General Electric in which it claims the payment of penalties for project delays that General Electric itself agreed with the customer despite the Company's opinion and certain costs General Electric alleges that it incurred to perform or complete certain tasks within the scope of the Company, including direct payments to certain suppliers, plus interest. On 20 December 2019, the Group filed a counterclaim against the arbitration suit filed by General Electric. Both the Group and the Company's legal counsel consider that there are solid legal grounds for defending the Company's position and submitting claims against General Electric for higher amounts. They believe General Electric's claims will not give rise to any payments by the Company.

Matheu & Lujan

The Duro Felguera Group, through its subsidiaries Duro Felguera Argentina S.A. and DF Mompresa S.A.U., entered into a consortium agreement ("Consortium Agreement") in partnership with Siemens, with customers Stoneway Capital Corporation and Araucaria Energy, S.A., for the manufacture of two open cycle power plants, setting out the individual tasks and responsibilities. In 2017, a "Consent and Agreement" was signed to bring in a bank as partner and Collateral Agent.

On 13 August 2019, after months of negotiations with the customer, Duro Felguera Argentina S.A. and DF Mompresa S.A.U. submitted an application for arbitration against Stoneway Capital Corporation and Araucaria Energy, S.A. with the International Court of Arbitration of the International Chamber of Commerce in New York, claiming USD 31 million of unpaid amounts by the customer on the Matheu and Lujan projects.

As at the date of authorisation for issue of these consolidated financial statements and in light of events occurring during the period, the recoverability of the amounts receivable was re-estimated based on the opinions of the internal legal advisors and external lawyers. As a result, the provision of €1,142 thousand recognised in 2019 was reversed.

Recope

In August 2019, Recope submitted contractual termination documents, which will not become final until a non-appealable administrative ruling is handed down. Nevertheless, the Group has taken steps to have those documents rendered null and void by protesting the contended acts and the claimant's standing.

The Group also filed an administrative appeal against the refusal to entertain the request to restore the balance of the contract. The case continues to be heard before the courts of Costa Rica. In tandem with this, the Group filed notice of an investment arbitration dispute in September 2019, under the terms of the Agreement on Reciprocal Promotion and Protection of Investment signed between Spain and Costa Rica.

The Group has filed various requests for injunctions and precautionary measures with the ordinary courts of Costa Rica, which have been rejected on the grounds that there is no evidence of a risk of urgency, given that no final ruling on the contract has been delivered. The Group will act accordingly in the event that the contract termination becomes final, although at the date of preparation of these consolidated financial statements no outflow of funds is expected to materialise.

Fluxys

The Group has reached an agreement with the customer, allowing the parties to perform the project as per the agreed terms, but with a considerable improvement in project earnings (€5 million) and cash, while also reducing the guarantees issued to the customer.

Aconcagua

On 14 May 2020, Duro Felguera, S.A. and Duro Felguera Chile Limitada (formerly Operación y Mantenimiento Andina Limitada) notified the ICC of their request to initiate arbitration against customer ENAP Refinerías, S.A. in relation to breaches of contract and project delays attributable to the customer and claiming a preliminary amount set at US$23.3 million, plus interest and costs.

Jebel Ali Power Station Project

On 6 April 2017, Duro Felguera, S.A. signed a turnkey contract with the Dubai Electricity and Water Authority (DEWA) to expand the Jebel Ali 'K' Phase III power plant by a further 500 MW.

Certain cost and time overruns have been incurred on this project for which the Group is not responsible. Accordingly, a new claim for cost and time overruns was presented to the customer in June 2019 and subsequently extended in September 2019 by a further €61 million. On 1 August 2019, the customer sent a notice of breach in relation to the planning of the construction work, which was rejected by the Group.

The Group continues to make its best efforts to reach an amicable solution with the customer and resolve their differences. Despite repeated attempts by the Group to reach an amicable solution to the budgetary problems associated with the contract, an agreement has yet to be reached. Given the situation and the unjustified rejection of the claims made by the Group, the customer was notified of a request to initiate arbitration proceedings on 26 April 2020. On 22 April 2020, the Group requested a suspension of work at the site to prevent further risk to the health and safety of workers in the wake of the COVID-19 pandemic, since positive cases had been detected at that time, but no response was received. On 9 May 2020, the Group received a further notice of breach with a cure period of 28 days and the following day (10 May) it received notice that the customer had moved to enforce guarantees amounting to €47,848 thousand (corresponding to the performance bonds and advances provided), which are counter-guaranteed by a guarantee posted by the parent company.

The Group and its legal advisors believe that the arguments given by the customer supporting its decision to enforce the guarantees have no legal or contractual basis. Although proceedings are still at an early stage and the outcome is far from certain, based on the information currently available, the Group does not expect the final outcome of this contingency to have a material impact on its equity or financial position and, accordingly, it has not made any additional provision in this connection.

At the date of authorisation for issue of these financial statements, the terms of the contract are being negotiated with the customer in a bid to reach an agreement.

Aside from the matters described above, there are a number of other minor contingencies for which the Group believes existing provisions to be sufficient.

37. Commitments

At 31 December 2019, there were no commitments to purchase fixed assets, as was also the case at 31 December 2018.

38. Related party transactions

The following transactions were carried out with related parties:

a) Purchases of goods and services

	€ thousand	
	2019	**2018**
Purchases of goods and services		
- Associates	-	-
- Related parties	-	-
	-	**-**

b) Compensation and other benefits paid to the Board of Directors of the parent and Senior Management

Board of Directors

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 2019 and 2018 is as follows:

	€ thousand	
Remuneration item:	**2019**	**2018**
Remuneration for membership of the board and/or board committees	488	492
Salaries	437	484
	925	**976**

Directors did not receive any other benefits.

On 18 September 2019, the Board of Directors accepted the resignations tendered by directors Marta Elorza Trueba and Alejandro Legarda Zaragüeta, and on 30 September it accepted the resignations tendered by directors Loreto Ordóñez Solís and Juan Miguel Sucunza Nicasio, while also agreeing on that date to appoint, by co-option, Rosa Isabel Aza Conejo and José Julián Massa Gutiérrez.

Furthermore, and as indicated in Note 41, on 30 January 2020 the Board of Directors co-opted Valeriano Gómez Sánchez as an independent director and accepted the resignation tendered by Ricardo de Guindos La Torre, effective 1 April 2020; and on 17 April 2020, after receiving a letter of resignation from Acacio F. Rodríguez García as Chairman of the Board of Directors, it was agreed to appoint Rosa Isabel Aza Conejo as Chairman of the Board of Directors and Jordi Sevilla Segura as independent director.

Senior Management

For the preparation of consolidated financial information, senior executives include the employees comprising the Management Committee during the reference period. Executives are considered to be individuals at the Group who effectively or legally discharge 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 2019 and 2018 is as follows:

	2019	2018
Total remuneration paid to senior executives (€ thousand)	1,379	1,109
No. of senior executives at 31 December	8	5
Average remuneration (€ thousand)	172	222

c) Dividends and other benefits

	€ thousand	
	2019	2018
Dividends and other benefits distributed:		
- Significant shareholders (Note 16)	-	-
	-	**-**

d) Year-end balances arising from sales/purchases of goods/services

	€ thousand	
	2019	2018
Receivables from related parties (Note 12):		
- Associates	-	-
- Related parties	-	-
	-	**-**
Payables to related parties (Note 23):		
- Associates	-	17
- Related parties	-	-
	-	**17**

e) Loans to related parties

	€ thousand	
	2019	2018
Opening balance	35	54
Additions	-	-
Loan repayments received	-	(19)
Other movements	(35)	
Closing balance	**-**	**35**

The loans in 2018 were granted exclusively to management personnel and bore interest at the 1-year Euribor rate, although this ceased to be a condition in 2019.

f) Article 229 of the Corporate Enterprises Act: notification by directors of stakes held in companies with the same, analogous or similar corporate purpose, and the positions and duties they perform therein, and conflicts of interest:

In compliance with their duty to avoid conflicts of interest with the Company, during the year directors who held positions on the Board of Directors complied with the obligations provided in article 228 of the Consolidated Text of the Spanish Corporate Enterprises Act. In addition, both they and their affiliates refrained from the situations implying conflict of interest set out in article 229 of said Law, except in cases in which the relevant authorisation was obtained.

This information relates to the activities of the directors with respect to Duro Felguera, S.A. and its subsidiaries.

39. Joint ventures

The Group has interests with other companies is several joint operations. The following amounts represent the Group's share of the assets and liabilities, income and expenses of the joint operations:

	€ thousand	
	2019	**2018**
Assets:		
Non-current assets	-	-
Current assets	69,925	63,170
	69,925	63,170
Liabilities:		
Non-current liabilities	-	-
Current liabilities	(132,489)	(106,876)
	(132,489)	(106,876)
Net assets	**(62,564)**	**(43,706)**
Income	1,274	9,009
Expenses	(7,888)	(13,650)
Profit after tax	**(6,614)**	**(4,641)**

(€ thousand)

40. Other information

a) Average number of Group employees by category

	2019	2018
Directors	1	1
Senior managers	7	5
Managers	23	20
Middle managers	181	255
Qualified staff	742	877
Support positions	96	123
Operators	496	476
	1,546	**1,757**

b) Number of men/ women by category

The distribution of Group employees at year-end is as follows:

	2019			2018		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Directors	1	-	1	1	-	1
Senior managers	6	2	8	5	-	5
Managers	14	5	19	14	6	20
Middle managers	127	25	152	188	30	218
Qualified staff	450	127	577	583	165	748
Support positions	30	46	76	47	61	108
Operators	487	1	488	459	-	459
	1,115	**206**	**1,321**	**1,297**	**262**	**1,559**

At 31 December 2019, there were six (6) employees with a disability of greater than 33% (31 December 2018: 14 employees), all of them men.

c) Environmental disclosures

The Group has taken appropriate action to protect and improve the environment, and minimise, where appropriate, any environmental impacts, in accordance with the law.

d) Fees paid to the auditors and their group of companies or associates

Audit fees accrued by E&Y for the audit of the financial statements and other audit-related services at all Group companies amounted to €657 thousand (2018: €872 thousand). Meanwhile, non-audit services provided in 2019 by E&Y companies amounted to €198 thousand (2018: €541 thousand).

41. Events after the reporting period

The following significant events have occurred between 31 December 2019 and the date of authorisation for issue of these consolidated financial statements:

- Iernut: an agreement has been signed with the customer, extending the contract period by four months and with a commitment to extend the contract until December 2020, increasing the contract price, mitigating risks and undertaking to reach an agreement imminently for the remaining claims.

- Bellara: On 28 January 2020 an addendum was signed to the contract with the customer, resolving the discrepancies between the parties and effectively extending the project performance period without imposing any penalty, while also reducing the amount of the guarantees posted by the Group and with the customer acknowledging and accepting a higher contract price.

- The Company received notice of a court order on 28 January 2020, followed by notice of an attachment against certain real estate assets, some of which had already been mortgaged in favour of the taxation authorities. Both the injunction and the attachments received must be annulled once no further appeal or action can be filed against the judgment delivered of 13 February 2020 and notified on 3 March 2020, in which the National Court ruled in favour of the Company and found the TEAC's decision to reject the request for suspension filed by the Company in September 2017 to be unlawful. The National Court has referred the case back to the TEAC for a further decision on the merits of the request, thus rendering both the injunction and the attachments inadmissible because a decision has yet to be issued in response to the request for suspension presented during the voluntary period.

- On 30 January 2020, the Board of Directors appointed Valeriano Gómez Sánchez independent director by co-option and accepted the resignation of Ricardo de Guindos La Torre, effective 1 April 2020.

- On 26 February 2020, the Group confirmed to the joint and several director of DF Australia that it would no longer provide financial support to the subsidiary. This decision had been approved by the Board on 19 December 2019, together with a decision to liquidate the subsidiary. On 28 February 2020, a voluntary administrator was appointed for DF Australia under the laws of Australia.

- In March 2020, the Board of Directors, following an internal inquiry and in light of the reports issued by a law firm of recognised standing, agreed to file a criminal complaint against former Chairman and Chief Executive Officer, Ángel Antonio del Valle, before the courts of Gijón.

  The law firm issued a report in which they found evidence of conduct that could incur criminal liability. In response, the Board of Directors of Duro Felguera, S.A. agreed, as the Company's governing body, to file a criminal complaint against former Chairman and Chief Executive Officer, Angel Antonio del Valle, for fraudulent administration and misappropriation.

  The complaint has been lodged with the Gijón Court of First Instance and a decision on whether to admit the case has yet to be delivered.

- The coronavirus pandemic (COVID-19) has led to an unprecedented health crisis worldwide and will undoubtedly take a toll on the macroeconomic environment and global economic activity. At the date of authorisation for issue of these consolidated financial statements, the true scale and impact of this pandemic remains a major concern.

  The Spanish government has adopted a series of measures to address this situation, including the declaration of a state of emergency through Royal Decree 463/2020, of 14 March. It also approved several extraordinary emergency measures to cope with the economic and social impact of COVID-19 in the form of Royal Decree Law 8/2020, of 17 March.

  The Group has designed and implemented an Action and Contingency Protocol to protect employees, customers and suppliers and to ensure the same level of efficiency and quality across the entire Company, thus minimising the impact of the pandemic. However, the Group remains alert to the rapidly changing situation as events unfold across the globe with the aim of anticipating and responding to possible changes that may occur down the line. The Group's cash position at the date of authorisation for issue of these financial statements remains strong enough not to compromise the going concern principle.

  In the Group's opinion, these events do not require an adjustment to the financial statements for the year ended 31 December 2019. However, they could impact its business activities and, therefore, its future results and cash flows.

  The Group is currently assessing the impact that COVID-19 may have on its operations and financial position. Given how complex the situation is and how fast it is spreading, it is not presently possible to provide a reliable estimate as to its potential impact on the Group. Any impact will be recognised prospectively in the 2020 financial statements.

- On 14 April 2020, Duro Felguera, S.A. reached a unanimous agreement with the workers' representatives to submit a temporary workforce downsizing plan based on productive needs under the terms of Royal Decree Law 8/2020 of 17 March, on urgent and extraordinary measures to cope with the economic and social impact of COVID-19. The plan will affect the companies 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.

  The case will last six months and affect a total of 672 workers, subject to an upper limit of 464 workers per month. It also includes an undertaking to lower the salary of Management Committee members and the rest of the management team by 20% over the duration of the plan.

- On 17 April 2020, the Board of Directors of Duro Felguera, S.A., upon receiving the letter of resignation tendered by Acacio F. Rodríguez García as Chairman of the Board of Directors, decided to appoint Rosa Isabel Aza Conejo as Chairman of the Board of Directors and to co-opt Jordi Sevilla Segura as an independent director.

- Aconcagua: On 14 May 2020, Duro Felguera, S.A. and Duro Felguera Chile Limitada (formerly Operación y Mantenimiento Andina Limitada) notified the ICC of their request to initiate arbitration against customer ENAP Refinerías, S.A. in relation to breaches of contract and project delays attributable to the customer and claiming a preliminary amount set at US$23.3 million, plus interest and costs.

- Jebel Ali Project: The Group continues to make its best efforts to reach an amicable solution with the customer and resolve their differences. Despite repeated attempts by the Group to reach an amicable solution to the budgetary problems associated with the contract, an agreement has yet to be reached. Given the situation and the unjustified rejection of the claims made by the Group, the customer was notified of a request to initiate arbitration proceedings on 26 April 2020. On 22 April 2020, the Group requested a suspension of work at the site to prevent further risk to the health and safety of workers in the wake of the COVID-19 pandemic, since positive cases had been detected at that time, but no response was received. On 9 May 2020, the Group received a further notice of breach with a cure period of 28 days and the following day (10 May) it received notice that the customer had moved to enforce guarantees amounting to €47,848 thousand (corresponding to the performance bonds and advances provided), which are counter-guaranteed by a guarantee posted by the parent company.

  The Group and its legal advisors believe that the arguments given by the customer supporting its decision to enforce the guarantees have no legal or contractual basis. Although proceedings are still at an early stage and the outcome is far from certain, based on the information currently available, the Group does not expect the final outcome of this contingency to have a material impact on its equity or financial position and, accordingly, it has not made any additional provision in this connection.
  At the date of authorisation for issue of these financial statements, the terms of the contract are being negotiated with the customer in a bid to reach an agreement.

- From 31 December 2019 through to the date of authorisation for issue of these financial statements, a total of €70,752 thousand in collateral provided to third parties in the form of guarantees or deposits has either been cancelled or reduced, such collateral correspond to the Termocentro, Cogeneración de Aconcagua, Ilo, Puerto Ventanas and other projects (Note 36).

The Parent Company's directors considered all these significant events in the review of their accounting estimates and decision-making, given their importance.

42. Additional note for English translation

The consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU-IFRS), the interpretations issued by the IFRS Interpretation Committee (IFRIC) and mercantile law applicable to companies reporting under EU-IFRS. Consequently, certain accounting practices applied by the Company may not conform with generally accepted principles in other countries.

DURO FELGUERA, S.A. AND SUBSIDIARIES

2019 Management Report

GENERAL PERFORMANCE

The Group unveiled its strategic plan for 2019-2023 at the Annual General Meeting. The main focus is on cash generation, articulated based on the following principles: **self-financing of each project, priority of profitability over growth, efforts to enhance efficiency and control costs, reduce risks and focus the geographic perimeter.**

The Group's performed well in 2019, exceeding the profit guidance envisioned in the strategic plan.

With the overriding objective of generating cash, this result has been achieved by implementing a new organisational model focused on strict cost control and reducing risk exposure and by setting up a new Management Committee to further reduce the Group's cost structure. Agreements have been reached with different customers to renegotiate the contractual terms of various projects currently ongoing. Meanwhile, settlement agreements have been signed with a number of customers, thus generating liquidity for the Group and bringing an end to various lengthy and costly lawsuits and disputes. Lastly, certain non-strategic assets have been sold, as envisioned in the strategic plan.

Revenue from sales in 2019 amounted to €392.9 million (2018: €421.3 million), down 6.7% on the figure reported a year earlier.

EBITDA was a positive €4 million, compared with a negative €124.4 million a year earlier.

Net profit attributable to the Parent Company was also positive at €1.4 million. In 2018, attributable profit came to €99.4 million and included extraordinary income from refinancing activity, amounting to €218.7 million. Stripping out these extraordinary earnings, net profit attributable to the Parent would have been a negative €119 million in 2018.

At 31 December 2018, the Group's net debt amounted to €3.5 million, a situation that was effectively reversed in 2019, with the Group reporting surplus liquidity of €22.9 million at year-end.

Order intake for the period amounted to €105.5 million, up 34% on the previous year. The unavailability of the committed guarantee facility envisaged in the refinancing agreement signed in 2018 is making it difficult to achieve the levels of order intake envisioned in the strategic plan.

The order backlog at the end of the period stood at €468.9 million, of which €426.6 million (91%) relates to international projects.

Highlights in 2019 included:

- The presentation of the Group's strategic plan for 2019-2023.
- Renewal of the Company's management team. Organisational structure of the parent.
- Efficient cash management and control.
- Closure of the Madrid offices and mass relocation to the head offices in Gijón.

- Lower structural costs in general, and especially the cost of external consultants.

- Implementation of new control systems: Management Control, Risk Control and ICFR.

- On the subject of planned non-strategic divestments, the Group has sold the Cartagena plant, 20% of its stake in Duro Felguera Rail, S.A. and other real estate assets such as the land in Tedesa. It is also negotiating the sale of certain other non-strategic assets.

Renegotiation of legacy projects under the principle of self-financing, cash generation and profitability:

- Australia: Settlement agreement signed between SC&T Corporation and the Group. Meanwhile, the decision was reached on 19 December 2019 to withdraw financial support for the Australian subsidiary, and on 28 February 2020 a voluntary administrator was appointed, thus effectively removing this subsidiary from the Group's scope of consolidation.

- India: Eight settlement agreements were signed over the course of 2019 in relation to the eleven arbitration proceedings that had been ongoing at year-end 2018. In addition, favourable settlement agreements were reached with various suppliers in India, generating an overall gain of €4 million.

- Amicable resolution of the contract associated with the New ILO Terminal in Peru, with an impact on the income statement of €13 million.

- Fluxys: the Group has reached an agreement with the customer, allowing the parties to perform the project as per the agreed terms, but with a considerable improvement in project earnings (€5 million) and cash, while also reducing the guarantees issued to the customer.

- Bellara: an addendum has been signed to the contract with the customer, resolving the discrepancies between the parties and effectively extending the project performance period without imposing any penalty, while also reducing the amount of the guarantees posted by the Group and with the customer acknowledging and accepting a higher contract price.

- Iernut: an agreement has been signed with the customer, extending the contract period by four months and with a commitment to extend the contract until December 2020, increasing the contract price, mitigating risks and undertaking to reach an agreement imminently for the remaining claims.

- Aconcagua: an agreement has been reached with the customer to establish a negotiation period, entailing delivery of the plant and halving the amount of the guarantees.

The Group is continuing to make efforts to instil a culture based on reducing risk exposure, generating cash, and optimising resources to deliver the strategic plan. This includes the following actions:

- maintaining ongoing negotiations with banks in order to raise the funds and guarantees needed for the Group's existing operations;
- searching for long-term industrial investors to strengthen its equity and cash positions, while liaising with all stakeholders and interested parties to obtain the necessary support for the Group;
- a process of renegotiating the contractual terms with customers of certain ongoing projects. On this front, the Group is in talks with and has claims in progress against several customers, for a total of €244 million at different stages. These have not been recognised in the consolidated financial statements;
- making further efforts to secure new contracts and making the business structure more efficient.

To illustrate the Group's recent performance, the following table shows the Group's main financial indicators at 31 December 2019 and 2018:

	€ thousand		
	2019	**2018 without extraordinary refinancing income**	**2018**
Revenue	392,909	421,325	421,325
EBITDA (1)	3,993	(124,396)	(124,396)
Profit/(loss) before tax	4,679	(137,908)	78,892
Net financial debt (2)	22,981	(3,479)	(3,479)
Order intake (3)	105,480	78,792	78,792
Order backlog (4)	468,912	779,324	779,324

(1) EBITDA is earnings before interest, tax, depreciation and amortisation. Its calculation is disclosed in Note 5.
(2) Net financial debt is the amount of gross debt less cash and cash equivalents. Its calculation is disclosed in Note 3.
(3) Order intake: defined as the total amount of contracts won in the year, calculated by adding the amounts of each contract signed during the year.
(4) Order backlog: means the amount of work yet to be performed under signed contracts held by the Company, calculated by subtracting the amount performed from the total amount of each contract.

The unavailability of the lines of guarantees envisaged in the refinancing agreement signed in 2018 is making it difficult to achieve forecast order intake and the pace of ongoing project execution, since liquid resources of the projects were pledged for the issue of new guarantees.

The Group estimates the need to post €40 million in guarantees or equivalent instruments for projects in the pipeline and new contracts over the coming 15 months.

Average headcount for the Duro Felguera Group went from 1,757 employees at 31 December 2018 to 1,546 employees at 31 December 2019.

DURO FELGUERA GROUP

Organisational structure

The Group is specialised in executing turnkey projects for the energy, industrial and oil & gas facilities, providing industrial services and manufacturing capital goods, with a strong international business projection. It is organised in five business segments: Energy, Mining & Handling, Oil & Gas, Specialised Services, and Manufacturing and others.

Business model

The DF Group is a person and knowledge-based group, specialised in projects that are tailored to our customers' needs. Given its international presence, the Group must analyse and manage risks in highly diverse economic, political and social environments. The Group currently obtains 89.1% of revenue from projects developed outside of Spain.

Corporate governance and Management Committee

The Board of Directors of the parent company is the chief operating decision-maker. At the date of authorisation for issue of these consolidated financial statements, it was composed of seven members (five independents). According to the By-laws, its main duties entail defining the strategy, remaining accountable to shareholders, drawing up the annual financial statements and presenting them to the Annual General Meeting, and overseeing management and financial reporting.

The Audit Committee comprises three members, all independent. Its main duties includes supervising corporate governance, ensuring the transparency of the Company’s actions, compliance with best practices in governance and with the rules of the Internal Code of Conduct, and informing the Board of any breach to be corrected, or, ultimately, reporting such breach to the shareholders at a General Meeting.

The Nomination and Remuneration Committee comprises three independent members at the date of authorisation for issue of these consolidated financial statements. Its main functions include examining the competences, knowledge and experience required of the Board of Directors, defining the remuneration policy, and overseeing a smooth and planned succession of board members.

On 1 December, José María Orihuela Uzal was appointed Chief Executive Officer, thereby separating the positions of Chairman and Chief Executive.

The Group also added new members to the Management team during the period: a human resources manager, a financial director, a management control director, a legal counsel director, and a production director. A head of business development manager has joined the company after the reporting period.

BUSINESS OUTLOOK

The strategic plan for the 2019-2023 horizon is focused on cash generation and aims to achieve this based on the following principles defined around a realistic strategy:

- Ensuring that each project is self-financed: from the bid, analysing the cash flow of the project tendered to uncover potential requirements and assess viability. During execution, with a monthly review of each project's cash flows, analysing deviations and pre-empting occasional needs for finance, which will be raised locally, to complete the execution of the projects. A new project finance director was brought on board recently to enhance the Group's ability to obtain guarantees and financial projects at source.
- Emphasising profitability over growth: performing a critical cost-return assessment of each project in the bid phase via cross-cutting and multi-disciplinary teams within the Group.
- Working efficiently and controlling costs: performing exhaustive cost control with each project, with monthly analyses of deviations so that the right remedial measures are adopted immediately. A new management control director was hired recently, reporting directly to General Management and tasked with drawing up a comprehensive dashboard for the oversight and detailed analysis of each project and facilitating decision-making.
  Moreover, to drive contractual management from signing a new contractual management director was added who, liaising with the legal department, will oversee fulfilment of each contract.
- Reducing risk: focusing on the Group's current key business risk map, a new risk department director was appointed and the internal control over financial reporting (ICFR) system was updated.
- Redefining the strategic positioning: performing critical assessment of the current industry and international position and focusing on profitable core markets and segments, in line with the sector. Notably, the Group's strategy centres on the need to reinforce its four historically profitable segments (assembly and maintenance, mining and handling, heavy fabrication, and tanks), all of which generate recurring orders.

Planned disposals are proceeding as schedule in accordance with the strategic plan. To date, the Cartagena plant has been sold, as has 20% of the stake held in Felguera Rail, S.A. and certain real estate assets (see Note 6).

In summary, the directors, with the help of the Duro Felguera Group's Management Committee, are taking all the necessary measures and actions to obtain appropriate financing to meet liquidity requirements and payment obligations in the ordinary course of operations. They are actively looking at different alternatives for analysis and negotiation. Accordingly, the directors of the Parent Company have prepared the consolidated financial statements on a going concern basis, on the understanding that the negotiations currently under way will have a favourable outcome and that new projects will be secured in accordance with the strategic plan.

MAIN RISKS AND UNCERTAINTIES

a) 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 Australian dollar (AUD), and to a lesser extent, local currencies in emerging countries, the most important of which at present are the Argentine peso (ARS) and Indian rupee (INR). 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 exchange 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 31 December 2019.

(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.

Against the current backdrop, with the first quarter of 2020 having seen the heaviest fall in oil prices since 1991, the Company considers that this fact may give rise to an opportunity for improved order intake for the construction of tanks and reservoirs used to store hydrocarbons.

(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 of a 10 basis point shift upwards or downwards would be an increase/decrease of €73 thousand (2018: €86 thousand).

b) 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, it is worth mentioning 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 represent 71% of "Trade and other receivables" at 31 December 2019 (2018: 62%), relating to operations with the type of institutions indicated above. Accordingly, the Group considers that credit risk is extremely limited. 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.

c) 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 Department 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 are presented in the following table:

	€ thousand	
	2019	**2018**
Borrowings and derivatives (Note 22)	(99,927)	(106,576)
Less: Cash and cash equivalents (Note 15)	122,908	103,097
Net cash/(debt) position	22,981	(3,479)
Undrawn credit lines	-	-
Total liquidity surplus/(shortfall)	**22,981**	**(3,479)**

Of the balance of "Cash and cash equivalents" at 31 December 2019 (Note 15), a total of €40,035 thousand was restricted as it had been pledged as security for project guarantees or cash deposits made in lieu of project guarantees (2018: €17,256 thousand).

As discussed in the previous section, the Group undertook a series of strategic measures in 2019 to improve its liquidity.

DERIVATIVE FINANCIAL INSTRUMENTS

At 31 December 2019 and 2018, the Group held no derivative financial instruments.

TREASURY SHARE TRANSACTIONS

At 31 December 2019 and 2018, 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 2019, 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 €602 thousand over the period (2018: €551 thousand).

AVERAGE PAYMENT PERIOD TO SUPPLIERS

Note 23 to the financial statements provides information on the average payment period to suppliers.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

The following significant events have occurred between 31 December 2019 and the date of authorisation for issue of these consolidated financial statements:

- Iernut: an agreement has been signed with the customer, extending the contract period by four months and with a commitment to extend the contract until December 2020, increasing the contract price, mitigating risks and undertaking to reach an agreement imminently for the remaining claims.

- Bellara: On 28 January 2020 an addendum was signed to the contract with the customer, resolving the discrepancies between the parties and effectively extending the project performance period without imposing any penalty, while also reducing the amount of the guarantees posted by the Group and with the customer acknowledging and accepting a higher contract price.

- The Company received notice of a court order on 28 January 2020, followed by notice of an attachment against certain real estate assets, some of which had already been mortgaged in favour of the taxation authorities. Both the injunction and the attachments received must be annulled once no further appeal or action can be filed against the judgment delivered of 13 February 2020 and notified on 3 March 2020, in which the National Court ruled in favour of the Company and found the TEAC's decision to reject the request for suspension filed by the Company in September 2017 to be unlawful. The National Court has referred the case back to the TEAC for a further decision on the merits of the request, thus rendering both the injunction and the attachments inadmissible because a decision has yet to be issued in response to the request for suspension presented during the voluntary period.

- On 30 January 2020, the Board of Directors appointed Valeriano Gómez Sánchez independent director by co-option and accepted the resignation of Ricardo de Guindos La Torre, effective 1 April 2020.

- On 26 February 2020, the Group confirmed to the joint and several director of DF Australia that it would no longer provide financial support to the subsidiary. This decision had been approved by the Board on 19 December 2019, together with a decision to liquidate the subsidiary. On 28 February 2020, a voluntary administrator was appointed for DF Australia under the laws of Australia.

- In March 2020, the Board of Directors, following an internal inquiry and in light of the reports issued by a law firm of recognised standing, agreed to file a criminal complaint against former Chairman and Chief Executive Officer, Ángel Antonio del Valle, before the courts of Gijón.

  The law firm issued a report in which they found evidence of conduct that could incur criminal liability. In response, the Board of Directors of Duro Felguera, S.A. agreed, as the Company's governing body, to file a criminal complaint against former Chairman and Chief Executive Officer, Angel Antonio del Valle, for fraudulent administration and misappropriation.

  The complaint has been lodged with the Gijón Court of First Instance and a decision on whether to admit the case has yet to be delivered.

- The coronavirus pandemic (COVID-19) has led to an unprecedented health crisis worldwide and will undoubtedly take a toll on the macroeconomic environment and global economic activity. At the date of authorisation for issue of these consolidated financial statements, the true scale and impact of this pandemic remains a major concern.

  The Spanish government has adopted a series of measures to address this situation, including the declaration of a state of emergency through Royal Decree 463/2020, of 14 March. It also approved several extraordinary emergency measures to cope with the economic and social impact of COVID-19 in the form of Royal Decree Law 8/2020, of 17 March.

  The Group has designed and implemented an Action and Contingency Protocol to protect employees, customers and suppliers and to ensure the same level of efficiency and quality across the entire Company, thus minimising the impact of the pandemic. However, the Group remains alert to the rapidly changing situation as events unfold across the globe with the aim of anticipating and responding to possible changes that may occur down the line. The Group's cash position at the date of authorisation for of these financial statements remains strong enough not to compromise the going concern principle.

  In the Group's opinion, these events do not require an adjustment to the financial statements for the year ended 31 December 2019. However, they could impact its business activities and, therefore, its future results and cash flows.

  The Group is currently assessing the impact that COVID-19 may have on its operations and financial position. Given how complex the situation is and how fast it is spreading, it is not presently possible to provide a reliable estimate as to its potential impact on the Group. Any impact will be recognised prospectively in the 2020 financial statements.

- On 14 April 2020, Duro Felguera, S.A. reached a unanimous agreement with the workers' representatives to submit a temporary workforce downsizing plan based on productive needs under the terms of Royal Decree Law 8/2020 of 17 March, on urgent and extraordinary measures to cope with the economic and social impact of COVID-19. The plan will affect the companies 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.

The case will last six months and affect a total of 672 workers, subject to an upper limit of 464 workers per month. It also includes an undertaking to lower the salary of Management Committee members and the rest of the management team by 20% over the duration of the plan.

- On 17 April 2020, the Board of Directors of Duro Felguera, S.A., upon receiving the letter of resignation tendered by Acacio F. Rodríguez García as Chairman of the Board of Directors, decided to appoint Rosa Isabel Aza Conejo as Chairman of the Board of Directors and to co-opt Jordi Sevilla Segura as an independent director.

- Aconcagua: On 14 May 2020, Duro Felguera, S.A. and Duro Felguera Chile Limitada (formerly Operación y Mantenimiento Andina Limitada) notified the ICC of their request to initiate arbitration against customer ENAP Refinerías, S.A. in relation to breaches of contract and project delays attributable to the customer and claiming a preliminary amount set at US$23.3 million, plus interest and costs.

- Jebel Ali Project: The Group continues to make its best efforts to reach an amicable solution with the customer and resolve their differences. Despite repeated attempts by the Group to reach an amicable solution to the budgetary problems associated with the contract, an agreement has yet to be reached. Given the situation and the unjustified rejection of the claims made by the Group, the customer was notified of a request to initiate arbitration proceedings on 26 April 2020. On 22 April 2020, the Group requested a suspension of work at the site to prevent further risk to the health and safety of workers in the wake of the COVID-19 pandemic, since positive cases had been detected at that time, but no response was received. On 9 May 2020, the Group received a further notice of breach with a cure period of 28 days and the following day (10 May) it received notice that the customer had moved to enforce guarantees amounting to €47,848 thousand (corresponding to the performance bonds and advances provided), which are counter-guaranteed by a guarantee posted by the parent company.

  The Group and its legal advisors believe that the arguments given by the customer supporting its decision to enforce the guarantees have no legal or contractual basis. Although proceedings are still at an early stage and the outcome is far from certain, based on the information currently available, the Group does not expect the final outcome of this contingency to have a material impact on its equity or financial position and, accordingly, it has not made any additional provision in this connection.
  At the date of authorisation for issue of these financial statements, the terms of the contract are being negotiated with the customer in a bid to reach an agreement.

- From 31 December 2019 through to the date of preparation of these financial statements, a total of €70,752 thousand in collateral provided to third parties in the form of guarantees or deposits has either been cancelled or reduced, such collateral relating to the Termocentro, Cogeneración de Aconcagua, Ilo, Puerto Ventanas and other projects (Note 36).

The Parent Company’s directors considered all these significant events in the review of their accounting estimates and decision-making, given their importance.

ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report for 2019 is attached as an appendix and forms an integral part hereof, as provided in article 526 of the Corporate Enterprises Act.

OTHER RELEVANT INFORMATION

Stock market data

The main stock-market data for the Group in 2019 and 2018 are as follows:

	2019	2018
Closing price	0.357	0.575
High (€)	0.9250	29.9
Low (€)	0.191	0.37
Trading volume (‘000 shares)	327,422	115,704
Cash (€ thousand)	141,829	230,128
Number of shares (x 1.000)	96,000	4,800,000
Market cap at year-end (€ thousand)	34,272	55,200

Source: Madrid Stock Exchange

Dividend policy

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 Bound Parties 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 (Note 22) in an amount equal to the dividend to be distributed.

DURO FELGUERA, S.A. AND SUBSIDIARIES

2019 MANAGEMENT REPORT

NON-FINANCIAL STATEMENT

Letter from the CEO

Dear reader,

Let me start by thanking you for showing an interest in this report. Throughout its pages, we explain our pledges and commitments on the subject of corporate social responsibility (CSR) and the Company's performance over the course of 2019.

While the concept of CSR has been gradually evolving and taking shape since it was first coined in the 1950s, in recent years it has become a hugely topical and relevant concern. As society becomes increasingly aware of the impact that companies have on their environment and local community and therefore demands greater control and accountability, CSR has been gaining importance, involving all departments and areas of the company and making CSR equally as important as a company's economic or financial information.

Following this trend, Duro Felguera's commitment to sustainability, ethics and good practices began decades ago, with CSR being one of the central pillars on which we base our relations with stakeholders. At Duro Felguera we are firmly convinced that our projects must be performed while protecting the environment and combining best management practices based on innovation, efficiency, profitability and sustainability, as a recipe for creating a successful business model and remaining a socially committed company.

Duro Felguera has undertaken this commitment by embracing the principles on human rights, labour and anti-corruption enshrined in the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work and the United Nations Convention against Corruption.

In recent years, part of our corporate strategy was focused on sustainable and socially responsible objectives, always ensuring compliance with applicable law and regulations across all territories in which we operate, following good governance recommendations and assuming best business practices.

In 2019, the Company unveiled its Strategic Plan 2019-2023 as a path towards further orderly and sustainable growth over the coming years in line with the trend seen in 2019, which marked a change of direction compared with previous years. In this new vision of the future, we have reviewed our range of products and services and analysed the key markets for our strategy, which we will pursue in traditional markets, but focusing on new growth sectors, especially renewable energies and power transmission and distribution.

The Strategic Plan hinges on a new organisational model based on a matrix structure that separates commercial from production functions and enhances technical management. Duro Felguera has pressed on with its process of internal transformation by setting up and filling key positions within the organisation with top-drawer talent. Our main goal is to achieve a more efficient business and management model, which will imply even stricter environmental, social and regulatory discipline.

At Duro Felguera we continue to make progress towards our objective of developing a sustainable business model and to achieve this it is essential that we flag and describe all risks inherent in the sectors and activities in which we operate in the domestic and international sphere. Thus, the risk map was updated in 2019 to flag, prioritise and monitor risks, all with the ultimate aim of providing a general framework for managing the threats and uncertainties inherent in our business processes, the environment in which the Group operates and its external and internal stakeholders.

To ensure compliance with the objectives in place and to strengthen the Company's commitment to ethics and transparency, all parties (employees, company owners and partners) have the inalienable duty to comply with our Code of Conduct, which contains the principles that must guide and steer the actions and decisions of all of us who form part of Duro Felguera. The Code of Conduct enshrines our commitment to fundamental rights and freedoms, focusing particularly on work-life balance, equal opportunities, non-discrimination and the right of all employees to receive training and career development opportunities. Our whistleblower channel allows any of us to report our suspicions of any irregular behaviour or conduct that might violate the Code of Conduct and/or the corporate Crime Prevention Model. The platform, accessible both internally and externally, is managed independently to ensure objectivity, independence and impartiality.

The Code of Conduct also reflects Duro Felguera’s long-standing commitment to the health and safety of its employees. Achieving the best possible working conditions has always been a priority within the Group's overall strategy. The Health and Safety Management System explains the conditions, procedures, functions and responsibilities of the organisation in implementing preventive action and enabling continuous improvement in this area. Our ongoing work in the realm of health and safety has been recognised for a further year in the form of the OHSAS 18001:2007 certification for all the business lines and areas of Duro Felguera.

Our focus on quality is essential and a fundamental part of the entire business chain. Throughout 2019, a process was implemented to make quality (ISO 9001) and environmental (ISO 14001) systems part of a single integrated system. This will ultimately allow us to unlock the synergies of maintaining both systems and aligning them with our new organisational model. This process will be ready in early 2020.

Duro Felguera’s corporate social responsibility strategy focuses on developing the local communities and territories in which we operate. Our approach to project execution is rigorously compliant with the labour regulations and standards of each location. We are firmly committed to show respect for the environment and seek to get involved in developing the local community. We are proud to have collaborated in 2019 with local communities through donations to charities and social welfare entities and through awareness-building and information campaigns, among other activities.

We are convinced that we are on the right track and will Duro Felguera remain a fully sustainable and socially responsible company, in the belief that helping our employees, customers, suppliers, partners, shareholders and the wider community is ultimately beneficial for Duro Felguera.

1. About us

With more than 160 years of history in industrial activities, Duro Felguera now executes end-to-end projects for the construction of power generation plants, mineral processing and bulk handling facilities, fuel storage plants and other infrastructure in the oil and gas sector. The Company carries out the entire project from end to end: engineering, supplies, assembly, commissioning, operation and maintenance. In the field of manufacturing, Duro Felguera designs and manufactures large pressure equipment for the petrochemical industry and other industrial assets.

For detailed information on the history of Duro Felguera, please look at the short version on or corporate website, or download the full version.

1.1 Mission, vision and values

Mission

The Company specialises in executing turnkey projects for energy, industrial and Oil & Gas facilities, providing industrial services and manufacturing capital goods, with a strong international business projection.

Vision

International growth in turnkey projects, providing clients with a quality service that meets their needs for the construction of industrial facilities, while offering sustained profitability for shareholders and career development opportunities for employees.

Values

- Client satisfaction through rigorous fulfilment of our contractual obligations in timing and quality.
- Commitment to our shareholders, assuring them an attractive return on their investment.
- Sustained growth through technological development and internationalisation.
- Reinvestment in assets and technological development to ensure continuing competitiveness.
- Support our employees' personal and career development.
- Fairness to our partners and suppliers.
- Integration with our community and social environment.
- Strict adherence to legislation in all countries where we operate.
- Respect for the environment and occupational health and safety.

1.2 Business model

Duro Felguera is a knowledge and person-based company, specialising in projects that are tailored to our clients' needs. Our international activity, which accounts for more than 89% of revenue, requires risk analysis and management in widely diverse economic, political and social realities.

Specialised services ensure excellence in the implementation of major projects. Duro Felguera benefits from a flexible and streamlined decision-making structure, which enables it to adapt quickly to the changes inherent in the market in which it operates.

The Company is active in six synergistic business lines: Energy, Mining & Handling, Oil & Gas, Services, Manufacturing and Smart Systems.

DF Energía

This line of business specialises in the management, manufacturing, civil engineering, supply, assembly, start-up, operation and maintenance of industrial power generation plants, including: simple and combined cycles; coal-fired thermal power plants; solar thermal and photovoltaic plants; desulphurisation and denitrification at thermal power plants; biomass plants; and wind farms.

DF Mining & Handling

This business line specialises in "turnkey" execution of projects in the areas of mineral processing and solid bulk handling. With more than 40 years of experience in these activities and a long list of references in international markets, the Company has its own proprietary technology and is capable of implementing all project phases, from engineering to start-up and operation of EPC facilities. The facilities we build include port bulk terminals, homogenisation yards and mine yards for storage (including proprietary designs for bucket unloaders and loaders, chain conveyors, and long-distance machines such as stackers, bucket collectors and combined stacker-reclaimers, among others).

DF Oil & Gas

This line of business specialises in building "turnkey" facilities for the oil and gas sector. The Company has implemented projects for major multinational petrochemical groups in Spain, Mexico, Brazil, Peru, Costa Rica, Belarus, Argentina and Jordan. Fuel storage is one of the Group's main specialities: our subsidiary Felguera-IHI has built up extensive experience in this field.

DF Servicios

This line of business comprises DF Operaciones y Montajes and DF Mompresa, which is specialised in a range of disciplines relating to the assembly, start-up, operation and maintenance of energy and industrial facilities. We are one of the key players in the Spanish market, and internationally our extensive experience is leading towards a growing presence. DF Servicios also executes turnkey projects for biomass and cogeneration plants, pellet plants, logistic storage facilities, and assembly, operation and maintenance services for wind farms.

Capital goods manufacturing

Duro Felguera's own workshops for the manufacture of capital goods are operated by DF Calderería Pesada, S.A. (DFCP), a subsidiary founded in 1968. The Company specialises in the manufacture of large pressure vessels for the oil and gas, petrochemical and nuclear sectors. With more than 45 years of experience in projects for widely diverse international destinations, DFCP has become one of the foremost pressure vessel manufacturers in the world.

DF Smart Systems

This business line consists of DF EPICOM, Spain’s leading company for the protection of critical communications to the highest standard of security for the Spanish government and international organisations. Our main products and services are encryption systems for communications networks (encryption, management center and key carrier), secure VoIP solutions (voice and video), encryption algorithms, cryptographic modules, and security applications.

1.3 Duro Felguera in the world

Duro Felguera is present all around the world, through its commercial offices or the projects that the Company undertakes in different regions.

SAUDI ARABIA
ALGERIA
ARGENTINA
AUSTRALIA
BAHRAIN
BELGIUM
BELARUS
BRAZIL
CANADA
CHILE
COLOMBIA
COSTA RICA
UAE (DUBAI)
INDIA
MAURITANIA
MÉXICO
PERU
ROMANIA
SPAIN
VENEZUELA

1.4 Strategy

The Company's 2019-2023 Strategic Plan was unveiled at the 2019 Annual General Meeting.

It is based on six key management principles:

- Focus on liquidity and cash generation
- Preference for self-financed projects
- Efficiency and control of direct costs and structural costs
- The return on the project is more important than the size of the project
- Effective risk management during the commercial and execution phase
- Geographic presence in the markets offering the highest growth volume

Geographically speaking, the company's key markets will be Mexico, Colombia, Peru, Chile, Spain, Portugal and the Middle East.

At product level, the Strategic Plan includes a review of the company's commercial offer, so that it can be adjusted to reflect the current situation of the markets in which it operates.

What this means is a vision of the future, in which Duro Felguera's traditional markets will account for 50% of order intake, energy projects 20% and new business 30%.

These new businesses are essentially the renewable energy and the power transmission and distribution sectors, which the company will penetrate through both inorganic growth and selective acquisitions of other companies.

The company's strategic plan envisions a positive performance in the sectors in which it operates.

In the energy sector, primary energy demand is expected to rise by 25% between 2020 and 2040. During this period, renewable energy will grow at a rate of 6.4% per year, while energy from gas will grow at 1.6% per year (source: BP Energy Outlook 2019; AT Kearney)

In the Oil & Gas sector, global oil demand is expected to grow through to early 2030, with a gradual decline thereafter. Geographically, demand growth will be concentrated in the Middle East (2.9% per year) and Africa (2.8% per year).

In the Mining & Handling sector, raw material prices have been steadily recovering since 2016. In the long run, we expect to see a positive performance from bauxite, copper, gold and zinc.

2. Good governance

Duro Felguera's governing bodies are compliant with the recommendations established in the Good Governance Code of the CNMV, Spain's securities market regulator, and are aligned with best practices in the industry. The essentials of value creation are transparency, improved efficiency and stronger investor confidence. Therefore, we need to strengthen governance through ongoing assessment and updating of the relevant rules.

In 2019, we focused on our objective of implementing the refinancing agreement signed in 2018, and on making further progress in updating and strengthening various corporate policies and functions. More to the point, in 2019 we strengthened our risk control and management policy, Code of Conduct and risk map. We also worked to improve the whistleblower channel, diagnosing and improving ICFR, strengthening the internal audit function and evaluating, redefining and updating the risk map.

A. Ownership structure

Share capital

Date of last change	Share capital (€)	Number of shares	Number of voting rights
31/05/2019	4,800,000.00	96,000,000	96,000,000

**Shares are not divided into different classes with different rights.*

Direct and indirect holders of significant shareholdings, excluding directors

Name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
Indumentaria Pueri, S.L.		7.57			7.57
Global Portfolio Investments	7.57				7.57
UBS Switzerland, AG		3.88			3.88
TSK Electrónica y Electricidad, S.A.	3.12				3.12
Sabino García Vallina		3.12			3.12

Name or corporate name of indirect owner of the interest	Name or corporate name of direct owner of the interest	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
Indumentaria Pueri, S.L.	Global Portfolio Investments, S.L.	7.57		7.57
Sabino García Vallina	TSK Electrónica y Electricidad, S.A	3.12		3.12

Treasury shares

Number of direct shares	Number of indirect shares	% of total share capital
0	0	0

Estimated free float

Estimated free float	85.43%

2.2 Corporate governance

Duro Felguera's **Corporate Governance Policy** sets out the criteria and principles that guide the organisational structure and functioning of the Company's governing bodies. The Policy is based on corporate values and is inspired by the principles and recommendations contained in the Good Governance Code of Listed Companies approved by the CNMV, Spain's securities market regulator.

Therefore, for its corporate governance, Duro Felguera follows these principles and practices:

- Efficient and organised functioning of the Board of Directors.
- Diversity of membership of the Board.
- Diligent and loyal conduct of directors.

- Remuneration practices designed to further the interests of the Company
- Sustained growth through client satisfaction, technological development and internationalisation, environmental protection activities, and respect for occupational safety and health.
- Commitment to and promotion of shareholders' rights.
- Compliance with the law and adoption of the best governance practices.
- Commitment to transparency.

The Board and its committees are regulated by the Spanish Companies Act (*Ley de Sociedades de Capital*), the Articles of Association and the Internal Regulations of the Board of Directors.

Board of Directors

The **Board of Directors** of the Company is the highest decision-making body. The main responsibilities of the Group's Board of Directors consist of defining, supervising and monitoring strategies and general guidelines, reporting and being accountable to shareholders, proposing dividend distributions at the Annual General Meeting, and overseeing financial reporting.

The Board of Duro Felguera, within the scope of its powers, meets all the requirements under the law and the internal rules of the Company. The Board and its committees (Audit, Risk and Compliance Committee and Nomination and Remuneration Committee) have a balanced membership as to gender and professional background.

At 31 December 2019, the Board comprised six members, four of them independent and two vacancies.

Name of director	Category	Position	Length of tenure	Method of selection
José María Orihuela Uzal	Executive director	Chief Executive Officer	Since 30 November 2018	Co-option by the Board
Acacio Faustino Rodríguez García	Other external	Chairman	Since 26 April 2001	General meeting resolution
Ricardo de Guindos Latorre	Independent	Director	Since 29 March 2018	Ratification of co-option through General Meeting resolution
Ignacio Soria Vidal	Independent	Director	Since 29 March 2018	Ratification of co-option through General Meeting resolution
José Julián Massa Gutiérrez del Álamo	Independent	Director	Since 30 September 2019	Co-option by the Board
Rosa Isabel Aza Conejo	Independent	Director	Since 30 September 2019	Co-option by the Board

Independent directors

No independent Director receives from the Company any form of remuneration other than the remuneration expressly assigned to this position.

Board diversity

The Company's Corporate Governance Policy provides that the Company should ensure that the procedures for selecting members favour a diversity of gender, experience and knowledge and have no implicit bias whatsoever and that, in particular, they favour the selection of women directors.

Accordingly, the Nomination and Remuneration Committee states in relation to "positive discrimination" that in the search for candidates that best adapt to the corporate interest, the professional profile that generates the greatest value for Duro Felguera, regardless of gender, age, or race, shall be considered. However, where two profiles are objectively similar, priority will be given to the least represented gender.

At year-end, 16.66% of the Board were women.

Committees

Audit, Risk and Compliance Committee:

On 31 December 2019, the Committee comprised members elected by the Board from among independent Directors:

Name	Position	Category
Ricardo de Guindos Latorre	Director and Chairman	Independent
Ignacio Soria Vidal	Director	Independent
José Julián Massa Gutiérrez del Álamo	Director	Independent

Committee members, particularly the Chairman, are appointed with regard to their knowledge and experience in accounting, auditing, or risk management matters.

The **Audit, Risk and Compliance Committee** meets whenever called by the Chairman or requested by two of its members and, in any event, at least four times per year, within fifteen days following the end of each calendar quarter. In 2019, the Audit, Risk and Compliance Committee met 19 times.

On 21 June 2019, the Board of Directors agreed to amend the Regulations of the Board of Directors and to approve a separate set of regulations for both the Appointments and Remuneration Committee and the Audit Committee, the latter to be renamed the Audit, Risk and Compliance Committee. This decision was based on a report issued by the Appointments and Remuneration Committee and followed the CNMV's practical guidance for Audit Committees and Appointments and Remuneration Committees.

The functions of the Audit, Risk and Compliance Committee are to:

» Define the procedure for selecting the statutory auditor, including the relevant selection criteria, such as training, experience and independence.

» Report to the General Meeting on any business that falls within the committee's remit and, in particular, regarding the outcome of the audit, explaining how this has contributed to the integrity of financial information and the role that the committee has played during this process.

» Supervise the efficiency of the Company's internal controls, internal audit and risk management systems, while also discussing with the statutory auditor any significant weaknesses in the internal control system that may have been detected over the course of the audit, without compromising its independence. To this end, and where appropriate, recommendations or proposals may be submitted to the Board of Directors and the corresponding time frame for follow-up activities.

- In particular, the Company shall have a risk control and management unit, under the supervision of this committee, to, *inter alia*, ensure that risk control and management systems are functioning correctly and, specifically, that major risks the Company is exposed to are correctly identified, managed and quantified; play an active supervisory role in the preparation of risk strategies and in key decisions about their management; and ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the Board of Directors.

- Monitor the preparation and presentation of the required financial and non-financial information on the Company and, where appropriate, the Group, and submit recommendations or proposals to the Board of Directors with a view to safeguarding its integrity, while checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

- Ensure the independence of the internal audit, risk and compliance functions, which report to the committee; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; set its priorities and work programmes, ensuring that it focuses primarily on the main risks the Company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

- Examine and review the annual work plan of the internal audit, risk and compliance functions, including reports of any incidents that may have arisen while carrying out the work; and scrutinising the reports on the activities of those functions at the end of each year.

- Escalate to the Board of Directors proposals to select, appoint, re-elect and replace the auditor, assuming responsibility for the selection process pursuant to applicable EU legislation, in addition to the conditions of her/her engagement and regularly request information on the audit plan and its execution from him/her, in addition to ensuring his/her independence in the exercise of audit duties.

- Establish appropriate relationships with the external auditor to receive information on issues that may threaten his/her independence, to be analysed by the Committee, and any other issues related to the process of auditing financial statements. Furthermore, when appropriate, authorise services other than those prohibited under applicable legislation, as well as the other communications stipulated in audit legislation and technical auditing standards. In all cases, an annual statement must be received from the external auditors confirming their independence with regards to their relationship with the entity or directly or indirectly related entities, while also providing detailed information on an individual basis about any type of payments received from these entities by the external auditor or by persons or entities related to them, pursuant to the regulations on auditing activities, and ensuring that the Company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

On this point, the Committee shall:

- Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.
- Ensure that the Company notifies any change of external auditor to the Comisión Nacional del Mercado de Valores as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- Investigate the issues giving rise to the resignation of the external auditor, should this come about.
- Ensure that the external auditor has a yearly meeting with the Board of Directors in full to inform it of the work undertaken and developments in the Company's risk and accounting positions.
- Ensure fulfilment of the audit engagement, requiring that the auditor's opinion on the financial statements and the content of the report are drafted clearly and precisely.
- Issue on an annual basis, prior to the issuance of the audit report on the financial statements, a reporting containing an opinion regarding whether the independence of auditors and audit firms has been compromised. This report shall be published on the Company's website sufficiently in advance of the Annual General Meeting, and must contain, in all cases, a reasoned evaluation of the provision of each and every additional service referenced in the previous point, considering each service individually and jointly, separate to the statutory audit and in relation to the system of independence and regulations governing auditing activities.

» Inform the Board of Directors, with prior notice, about all matters foreseen in law, the Bylaws and the Regulations of the Board of Directors; in particular those regarding:

- The financial information that the Company must periodically make public;
- The non-financial information that the Company must periodically make public;
- The creation or acquisition of shares in special purpose entities or those registered in countries or territories considered tax havens; and
- Transactions with related parties.
  Any report issued by the Audit Committee regarding related party transactions shall be published on the Company's website sufficiently in advance of the Annual General Meeting.
- Any structural changes, mergers or acquisitions the Company may be planning, including their financial terms and accounting impact and, in particular, the proposed exchange ratio.

» Receive from Senior Management the justification for any change of accounting criteria or principles, and to review such reasons.

» Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities in the Company.

- Supervise the Internal Codes of Conduct and regulatory compliance not expressly attributed to another Committee or to the Company's Board of Directors. In this respect, the Audit Committee shall:

    - Supervise the internal standards and procedures there to ensure the proper monitoring of the code of conduct and regulatory compliance across the various departments and areas of the Company, especially the Company's General Code of Conduct and internal regulations on the stock market; and ensure that they remain up to date at all times.

- Oversee compliance with the Company's corporate governance rules. In this respect, the Audit Committee shall be responsible for:

    - Supervision of transparency in corporate actions.
    - The periodic evaluation of the effectiveness of the Company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
    - Reporting and, if appropriate, raising proposals to the Board of Directors regarding the development of the corporate governance rules for the Company and its Group based on the provisions of the Bylaws and in accordance with the applicable legislation at all times.

- Monitor compliance with the Company's corporate social responsibility policy. In this respect, it shall:

    - Review the Company's corporate social responsibility policy, ensuring that it is geared to value creation.
    - Specifically, the Committee shall ensure that the corporate social responsibility policy specifies at least:
        - The objectives of this policy and the development of tools to support it.
        - The corporate strategy with regard to sustainability, the environment and social issues.
        - Concrete practices on matters related to: employees, customers, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.
        - The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
        - Channels for stakeholder communication, participation and dialogue.
        - Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

- Supervision of the process of reporting on diversity and reporting non-financial information in accordance with applicable rules and international benchmarks.

- Perform any other duties entrusted to it by the Board of Directors.

Nomination and Remuneration Committee

The Committee currently has three members. Following the most recent change in November 2019, the membership is:

Name	Position	Category
Ignacio Soria Vidal	Director and Chairman	Independent
Ricardo de Guindos Latorre	Director	Independent
Rosa Isabel Aza Conejo	Director	Independent

Committee members were chosen among non-executive Directors, with a majority of independent Directors. Its members, particularly the Chairman, are appointed with regard to their knowledge, skills and experience in the Committee's remit.

The Committee meets whenever called by its Chairman or a majority of its members, or when required by a resolution adopted by the Company's Board of Directors. In 2019, the Nomination and Remuneration Committee met 11 times.

The main functions of the **Nomination and Remuneration Committee** are to:

» In relation to directors and the Board of Directors:

- Evaluate the competencies, knowledge and experience necessary for the Board of Directors. To this end, the Committee shall define the duties and capabilities necessary in candidates who shall fill each vacancy and evaluate the time and dedication necessary in order to efficiently fulfil their commitment, and run an annual check on compliance with the director selection policy.
- Set a target for representation for the underrepresented gender on the Board, and draw up guidelines on how to achieve this objective.
- Submit to the Board of Directors proposals for the appointment of independent directors for their nomination by co-option or for their submission to the General Meeting of Shareholders' decision, in addition to proposals for the re-election or dismissal of said directors by the General Meeting of Shareholders.
- Inform of any proposals for appointment of all other directors for their nomination by co-option or for their submission to decision by the General Meeting of Shareholders, in addition to proposals for their re-election or dismissal by the General Meeting of Shareholders.
- Research and organise the succession of the Chairman of the Board of Directors and, as appropriate, the Chief Executive of the Company, formulating proposals to the Board of Directors so that said succession can be processed in an ordered and well-executed manner.
- Propose the remuneration policy to the Board of Directors, as well as the individual remuneration and other contractual terms of executive directors, while ensuring compliance with the same.
- Periodically review the remuneration policy applied to directors, including remuneration that involves the delivery of shares, and see to it that individual remuneration is proportional to that received by other directors and senior managers.
- Verify the information on director pay contained in corporate documents, including the Annual Directors' Remuneration Report.
- Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

- Report to the Board of Directors on proposed removals from office where any director fails to honour their duties as director as set out in prevailing legislation or internal regulations, or upon the occurrence of any of the grounds for removal or resignation provided for in applicable law and regulations.

» In relation to Senior Management personnel and executive remuneration policies:

- Inform of any proposals to the Board of Directors for appointment or dismissal of senior management and the basic terms of their contracts. For these purposes, the Committee shall receive from the Management, the Board of Directors or its committees, as appropriate, a description of the post to be filled, the desired profile of potential candidates, the selection proposal and the contractual terms that will be offered to the new incumbent, all of which must be in line with the remuneration policy for senior managers. The Committee may also interview candidates if it deems this necessary, request further information and, in general, take any action it deems necessary before making its final proposal.
- Propose, to the Board of Directors, the remuneration policy of general managers and of whomever else discharges senior management duties under the direct supervision of the Board of Directors, the Executive Committee or Chief Executive Officers, while ensuring compliance with that policy.
- Periodically review the remuneration policy applied to senior officers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other senior officers at the Company.
- Verify the information on senior officers' pay contained in corporate documents, including the Annual Directors' Remuneration Report.
- Verify, each time substantial amendments are made to the contracts or changes made to the policies, that the terms of the contracts of the senior management are consistent with the remuneration policies in force.
- Ensure, annually, that senior management remuneration policies are properly implemented, that no payments are made that are not provided for in those policies, and propose any measures that may be needed to recover any amounts unduly paid.
- Periodically review the general remuneration systems for the Group's staff, including an assessment as to their suitability and results.

- Review and evaluate Corporate Governance Policies, ensuring that all such policies remain up-to-date and compliant with prevailing law and regulations, and making any proposals for review, modification and improvement that it deems appropriate.

- Draw up, for submission to the Board of Directors, the corresponding annual directors' remuneration statement (ADRS), which must be disclosed in accordance with the law.

- Perform any other duties entrusted to it by the Board of Directors.

Nomination and appointment to the Board

In 2015, the Board approved a "Director Nomination and Selection Policy" which, in general, establishes a subjective scope of application for natural person directors and, in the case of legal person candidates, the natural persons who will represent them.

As to the procedure, proposals for the appointment or re-election of independent directors fall to the Company's Nomination and Remuneration Committee, or to the Board itself in the case of proprietary, executive and other external directors.

Remuneration

The Directors' Remuneration Policy is approved by the shareholders at a General Meeting, at the proposal of the Board and following a report from the Nomination and Remuneration Committee. The current Policy was approved at the General Meeting of 15 June 2018, and is effective for 2018, 2019 and 2020.

Given the financial position of the Company in 2018, it was decided to keep the Remuneration Policy in effect for that period. Therefore, no significant changes have been made to the policy.

Average remuneration of directors and senior management – 2019

	Total	Men	Women
Directors[1]	€115,700.40	€ 137,647.80	€ 40,162.20
Senior Management	€ 217,681.10	€ 228,990.30	€ 148,538.30

** (€ thousand)*

(i) Chief Executive Officer under "Directors".
(ii) Does not include attendance fees and/or fees for seats held on Board committees.
(iii) Average remuneration based on time spent in office during the financial year.
(iv) Fixed remuneration and in-kind remuneration.
(v) The Senior Management comprises each and every person who sat on the Management Committee throughout 2019, based on how long they remained in office. It does not include the Chief Executive Officer.

[1] For further information, please see the Directors' Remuneration Report.

Remuneration received in 2019 by item

Remuneration rate (%)	Directors	Senior Management
Pension plans and funds	0%	0%
Fixed remuneration	92.05%	98.47%
Variable remuneration	0%	0%
Items under the Company's articles (*)	7.53%	0%
Other forms of remuneration (**)	0.42%	1.53%

(*) Attendance fees and/or fees for seats held on Board committees.
(**) In-kind remuneration.

2.3 Governance of Corporate Social Responsibility

The Audit, Risk and Compliance Committee evaluates and formally approves the sustainability report, overseeing the structure of the paper and ensuring that all the Company's key matters are properly addressed. It is also responsible for compliance with the rules of Corporate Governance, and therefore:

» Oversees the transparency of the Company's actions.
» Periodically evaluates the effectiveness of the Company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering to the legitimate interests of the remaining stakeholders.
» Reports and makes recommendations to the Board of Directors on the implementation of corporate governance rules at the Company and its Group.
» Supervises compliance and reviews the CSR policy, ensuring that it is value-creating.
» Identifies the objectives of the corporate social responsibility policy, such as:
    - Corporate strategy.
    - Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.
    - Systems for monitoring results, related risks and their management.
    - Means and mechanisms for supervising non-financial risk, ethics and business conduct.
    - Stakeholder engagement and dialogue.

The report issued by the Audit, Risk and Compliance Committee on the Company's corporate social responsibility policy is prepared using an internationally accepted methodology, and published on the Company's website sufficiently in advance of the Annual General Meeting.

The Audit, Risk and Compliance Committee is also concerned with rules of conduct and compliance in the different spheres of the Company, and must therefore:

» Supervise internal codes of conduct.
» Determine and update internal rules and procedures.
» Issue a report, prior to approval by the Board of Directors, on the General Code of Conduct of the Company and its Group, the Internal Code of Conduct in the

securities markets and the Internal Regulations of the Company's Regulatory Compliance Officer.

- Ahead of submission to the Board, issue a report on the internal control procedures and rules implementing the General Code of Conduct that the Compliance Officer proposes to the Board.
- Evaluate all matters relating to the Company's non-financial risks.

3. Ethics and compliance

Duro Felguera has independent and stand-alone compliance and control mechanisms, thus making the Internal Audit, Risk Management and Compliance Department functionally dependent on the Audit, Risk and Compliance Committee.

The Company provides a global framework that enables all employees to identify their legal obligations. This framework, which aims to strengthen stakeholders' confidence in Duro Felguera, comprises:

- The **Code of Conduct**, which aims to establish the guidelines that must govern the ethical conduct of all Group employees and directors in the performance of their role, actions facing clients, shareholders, suppliers and external partners, and relations with public and private institutions and the wider community.
- The **Crime Prevention Model**, which describes monitoring and control measures for crime prevention and the structure and roles of supervisory and control bodies.
- The **Supplier Code of Conduct**, which establishes the principles to be applied by suppliers and subcontractors to ensure that their services to the Company are carried out in a responsible and sustainable manner.
- **Due Diligence of Third parties**, which describes the due diligence procedure that must be followed before signing any contract with third parties, with such contracts being an essential asset in achieving the Company's corporate purpose.

Alongside its high-level standards, Duro Felguera has cross-sectional policies and standards in support, including:

- The **CSR policy** states that the Company's activity shall comply with prevailing legislation in all countries in which it operates and conform with Duro Felguera's internal code of conduct and best practices of good corporate governance.
- The **Crime Prevention Manual** establishes the model for organising, preventing, managing and controlling crime risk at Duro Felguera, S.A. and its subsidiaries.

The Company also has policies and regulations that comply with legal obligations and regulatory requirements relating to the Company's business activities. Some of these policies address Risk Management, Corporate Governance, Remuneration, Selection of Directors or the Internal Code of Conduct.

3.1 Code of conduct

In December 2018, the Board approved the latest version of the **Code of Conduct** to meet the requirements of both stakeholders and the markets in general. The Code is mandatory for all employees, executives and members of the Board, and for subsidiaries and investees that do not have a code of their own that covers the same matters.

Each person in the organisation is key to Duro Felguera's reputation through their conduct and day-to-day interactions with our stakeholders. For this reason, the Code of Conduct states, by way of summary, that employees must act in a manner that is transparent, objective, upright, responsible, honest and respectful. The principles and guidelines of behaviour described in the Code are:

- Compliance with the law
- Respect for people
- Relations with government authorities and third parties
- Commitment to the market
- Protection of information
- Financial and accounting transparency
- Responsible use of resources and assets
- Use of facilities
- Protection of third-party intellectual and industrial property rights

To ensure that it is properly disseminated, the Code of Conduct is made available to all employees via the Company's corporate Intranet and to all stakeholders on the website in its Spanish and English versions.

In addition, a face-to-face training initiative was carried out in 2019 involving the entire Management Committee of the Company, the aim of which was to raise awareness of Duro Felguera's Code of Conduct and its Whistleblower Channel.

Ethics Line

Company employees are under a duty to report any known or suspected breach or conflict of interest and may submit queries on this matter.

Reportable issues can normally be referred to the employee's immediate superior or the Head of Human Resources. For cases in which the use of this route is not desired, Felguera has an "Ethics Line", or whistleblower channel, available 24 hours a day, seven days a week. This channel allows employees and third parties with whom they do or might maintain business relations to communicate queries and complain of breaches of the Code of Conduct and the Crime Prevention Model, in confidence.

To report a matter requiring attention through the Ethics Line, Group employees can access the relevant web page using the links provided on the corporate Intranet and website. Meanwhile, interested third parties who do or might have a relationship with the Group can access the Ethics Line by logging into the web portal.
The investigation of matters requiring attention raised on the "Ethics Line" is guided by the principles of disclosure, truthfulness, presumption of innocence, confidentiality, non-retaliation, effective protection, proportionality, impartiality, hearing the accounts of all parties, equal opportunities, defence, presumption of good faith, principle of proof and right to data protection.

In first instance, the head of Regulatory Compliance at Duro Felguera decides whether the report or compliant is well-founded. If, following a preliminary inquiry, he or she considers that it should be admitted, it is relayed to the Compliance Committee, the body in charge of investigating reports and complaints. The Compliance Committee ensures security and confidentiality of communications, independence and impartiality in the investigation of reported issues, and absence of retaliation surrounding issues reported in good faith.

The Compliance Committee comprises representatives of the Human Resources Department and the Legal and Economic-Financial Department and the Compliance Officer. This internal body is specifically responsible for updating, supervising and controlling compliance with the principles, values, guidelines and behaviours set out in the Code of Conduct and internal regulations that implement the Code.

In 2019, one incident was received through the Ethics Line of Duro Felguera, which can be accessed here: https://lineaetica.durofelguera.com

3.2 Regulatory compliance and anti-corruption

The creation of an independent compliance area, reporting directly to the Audit, Risk and Compliance Committee, reinforces the Company's commitment to transparency and ethics by encouraging all stakeholders to participate in a corporate culture based on integrity.

The Compliance Department communicates and oversees compliance with the Code of Conduct and draws up and implements the Crime Prevention Model. The Compliance Department reports directly to the Audit, Risk and Compliance Committee.

Anti-corruption measures

Duro Felguera and its group reject all forms of corruption, fraud or bribery. For this reason, DF seeks to prevent and combat irregular conduct by making appropriate rules and implementing whistleblower channels. The Code of Conduct explains how employees must deal with government bodies and third parties.

The Duro Felguera Code of Conduct forbids us from making political contributions in the Group's name or on its behalf, where doing so constitutes, or may constitute, any form of political affiliation or involvement. There are no known breaches of the Code in relation to contributions to political parties.

As mandated by the Code of Conduct, the Company is firmly committed not to engage in practices that may be considered irregular in relations with government bodies or regulators, market operators, suppliers and other stakeholders, including any practice related to money laundering.

No reports or complaints of corruption were received during the year. However, proceedings concerning alleged corruption are still under way at the Audiencia Nacional, Spain's national high court. For further information, see Note 36 to the 2019 financial statements.

In March 2020, and as a post-closing event, a complaint was filed against the former Chairman of the Board of Directors for fraudulent administration and/or misappropriation.

3.3 Tax transparency

Duro Felguera's tax strategy identifies, adopts and implements effective methods to reduce tax risks.

The Company's tax policy sets out the principles to be followed by Group companies as to tax performance and transparency. The policy, approved by the Board in December 2015, is designed to implement a responsible tax strategy within the framework of the Company's interests, sustainable value creation and the reduction of tax risks surrounding the activities of Duro Felguera.

The Company founds its practices on transparency, accurate reporting, good faith, cooperation with tax authorities, the principle of prudence, and compliance with the law and best practices. Our principles of action are:

- Design of tax structure without using opaque or artificial tax structures. Duro Felguera is committed to the fight against tax havens and international tax evasion.
- Commitment to payment on time and in proper form of all tax obligations.
- Cooperation with tax authorities and proper application of tax law to relevant business factors to reduce uncertainty and minimise any non-compliance.
- Management of tax risks arising from business interactions: Duro Felguera carries out an exhaustive analysis of tax aspects.
- Academic training of relevant employees to enable them to comply with the Group's Tax Strategy and build up practices that prevent and reduce tax risks in the design and implementation of their activities.

The Audit Committee oversees the Company's internal control, internal audit and tax risk management systems. The Committee reports to the Board on tax-related affairs.

The Board, as the highest management body, is responsible for framing the Company's tax policy and strategy.

Duro Felguera applies a transfer pricing policy for all transactions between related parties to ensure value creation through functions, assets and assumption of business risk.

Tax contribution

Duro Felguera properly fulfils its tax obligations under the law and regulations of each country in which it operates.

Grants received

In 2019, no government grants or subsidies were received in the realm of R&D, innovation, energy efficiency, occupational risk prevention, or investment. The only allowances received were €47,480.20 as a discount on social security contributions for a researcher, and €70,187.82 for continuous training initiatives.

4. Sustainable growth

4.1 Main financial indicators

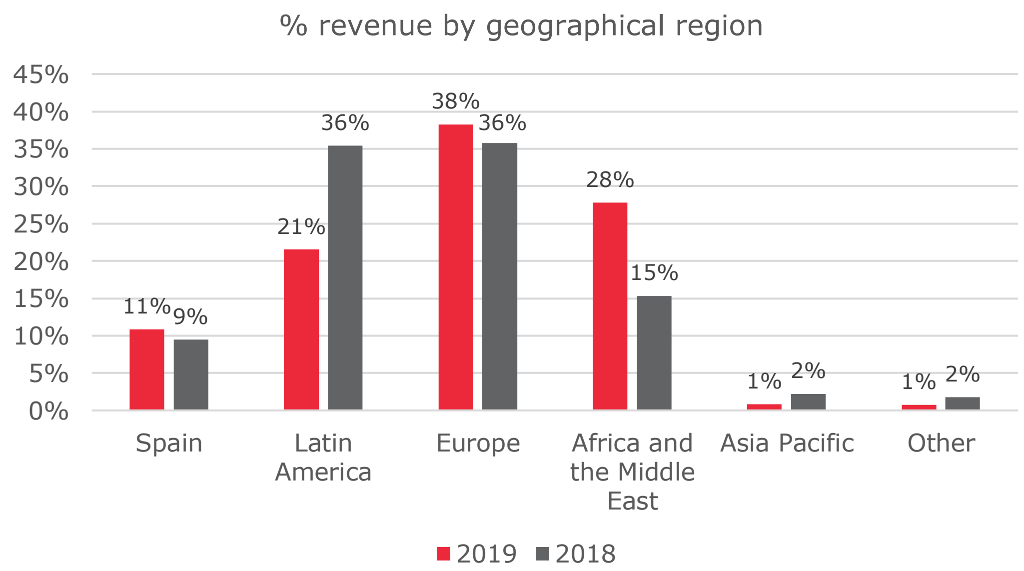
The Group's performance in 2019 exceeded the profit guidance envisioned in the strategic plan, resulting in an EBITDA margin of 5.1%.

With the overriding objective of generating cash, this result has been achieved by implementing a new organisational model focused on strict cost control and reducing risk exposure and by setting up a new Management Committee to further reduce the Group's cost structure. Agreements have been reached with different customers to renegotiate the contractual terms of various projects currently ongoing. Meanwhile, settlement agreements have been signed with a number of customers, thus generating liquidity for the Group and bringing an end to various lengthy and costly lawsuits and disputes. Lastly, certain non-strategic assets have been sold, as envisioned in the strategic plan.

Key financial indicators	2019	2018
Revenue	392,909	421,325
EBITDA	3,993	(124,396)
Working capital	25,814	37,205
Cash position (net of debt)	22,981	(3,479)
Order intake	105,480	78,792
Order backlog	468,912	779,324
Basic earnings per share	0.0006	0.05
Diluted earnings per share	0.0006	0.04
Gearing ratio	-	29.00%

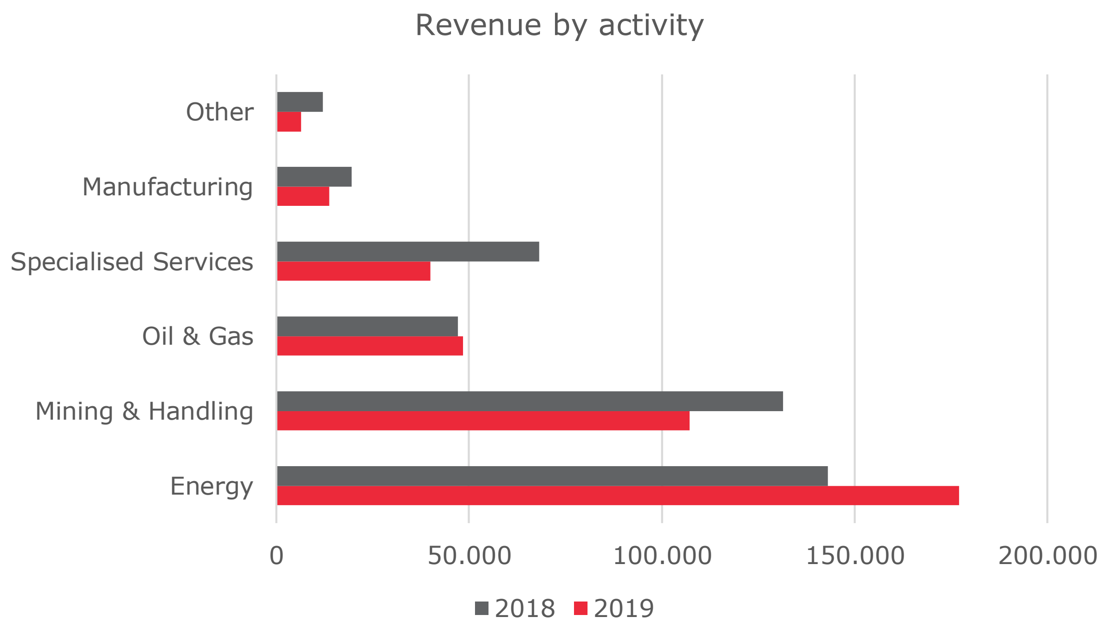
The following table presents the breakdown of revenue at year-end by the geographical distribution of the entities generating the revenue as presented to the Board:

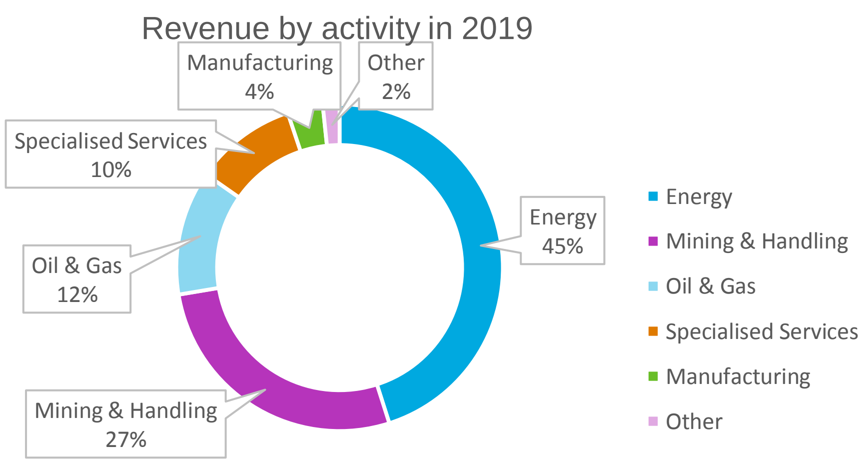
Revenue by geographical region	2019	2018
Spain	42,777	39,976
Latin America	84,516	149,209
Europe	150,304	150,785
Africa and the Middle East	109,145	64,531
Asia Pacific	3,240	9,370
Other	2,927	7,454
TOTAL	**392,909**	**421,325**

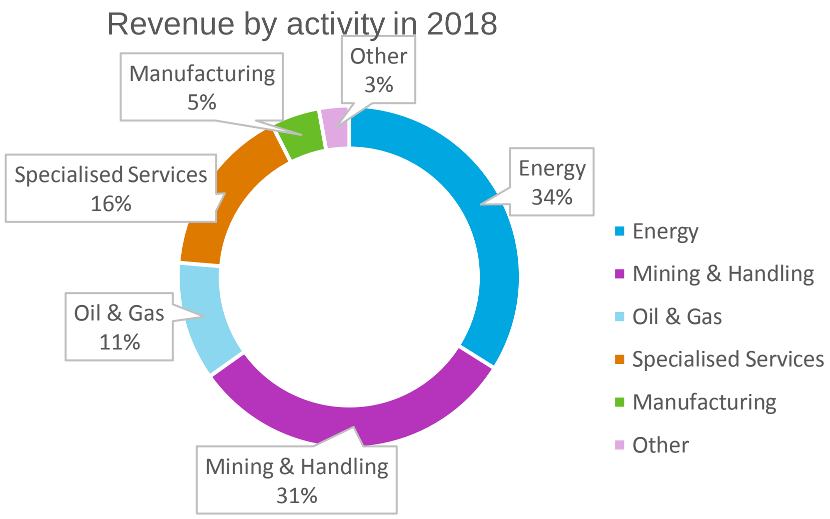


Revenue by activity, graphs for two financial years and comparison

Business lines	2019	2018
Energy	177,105	142,995
Mining & Handling	107,191	131,494
Oil & Gas	48,496	47,132
Specialised Services	39,888	68,177
Manufacturing	13,757	19,459
Other	6,472	12,068
TOTAL	**392,909**	**421,325**







Profit by geographical region

Geographical market	2019	2018
Spain	(9,414)	130,256
Europe	4,740	7,339
Africa and the Middle East	(15,911)	(23,067)
Asia Pacific	(7,960)	20,598
Latin America	33,456	(57,531)
Other	(232)	1,297
TOTAL	**4,679**	**78,892**

* *(€ thousand)*

Income tax expense

	2019	2018
Taxes (€ thousand)	263	(3,700)

Value generated and distributed

Value generated	2019	2018
Revenue	392,909	421,325
Other non-financial income	32,618	4,789
Finance income	7,575	225,076
Share in profit or loss of associates	(1,075)	-
Proceeds of asset disposals	2,314	-
TOTAL value generated	**434,341**	**651,190**
Value distributed		
Relations with suppliers	316,559	391,244
Employee remuneration	89,515	102,476
Payments to providers of capital	-	-
Total taxes payable by DF	(263)	3,700
Discontinued operations	-	-
TOTAL value distributed	**405,811**	**497,420**
Value retained	**28,530**	**153,770**

* *(€ thousand)*

4.2 Risk management

The nature of the industries in which Duro Felguera operates and its international activities entail risks that the Company identifies and controls, eliminating or mitigating any adverse impact. Duro Felguera is committed to developing a sustainable business model and therefore works to manage key social, environmental and economic impacts, including effects that could influence the decisions of our stakeholders.

The Company has end-to-end, standardised risk management throughout the organisation. Risk officers identify, analyse, evaluate, manage and communicate the risks involved in strategy and operations.

Duro Felguera thus seeks to achieve the goals of the Business Plan and reinforce the organisation's commitment to our stakeholders.

Risk management model

The end-to-end risk management system is based on the COSO ERM 2017 methodology, which establishes the essential components of risk management. It is governed by the Risk Control and Management Policy, approved by the Board of Directors in 2018, which sets out the basic principles and guidelines for the sound control and management of all risks to which the Company is exposed, based on the identification and flagging of the main business risks and relying on the most suitable internal control and management systems. The policy sets out the following principles:

- **Promote a risk-management culture**, from strategic planning through to operational decision-making.
- **Separate and assign responsibilities**, and obtain or create the most effective instruments to cover risk.
- **Report transparently on the Group's risks and operation of the control systems.**
- **Ensure compliance with corporate governance standards and update rules** in accordance with best practices.

The risk management system employs a methodology based on the following five phases: identification, analysis, evaluation, management and communication of the risks associated with the strategy and operations of Duro Felguera, thus ensuring a general framework for managing the threats and uncertainties inherent in the business processes and the environment in which the Group operates, while operating at all times under a monitoring approach.

Governance of risk management

Since it is a Group-wide system, everyone at Duro Felguera is under the duty to support risk management. Our Risk Management Policy sets down the following responsibilities:

- **Board of Directors**: defines, updates and approves the Risk Control and Management Policy and sets risk appetite.
- **Audit Committee**: oversees and controls the risk management system and makes risk appetite recommendations to the Board.
- **Management Committee**: identifies and evaluates risks throughout the Company, assigns responsibilities, confirms the results of risk assessments, and approves the actions proposed and executed by risk officers.
- **Risks Department**: reports directly to the Audit Committee and provides support to the Board and the Management Committee. Its role is to standardise, monitor and reinforce the risk system.
- **Risk Officers**: actively participate in the identification, assessment and proposal of risk management actions.

Development of the risk management model

There are two distinct levels of control within this model, under the principles of the Risk Control and Management Policy:

- **Control and Management of Corporate Risks**: the general risks associated with Duro Felguera's business in general.

  Given the transversal nature and significance of this type of risk —and not only for the achievement of the objectives of the wider business but also for the Company's future prospects— the members of the Management Committee act as the officers of these corporate risks.

- **Control and Management of Project Risks**: These are the risks inherent in each particular project throughout its life, running from the commercial opportunity phase through to completion.

  In this case, the Risk Officers are the members of the project team.

Within the **Corporate Risk Control and Management** area, Duro Felguera updated its risk map in 2019 to identify, prioritise and monitor all risks that could affect Duro Felguera. Under this model, there are four categories of risk:

» **Strategic**: risks associated with key long-term objectives. They may arise from the actions of other key market participants (clients, competitors, regulators, investors or others), from changes in the competitive environment or from the business model itself.

» **Operational**: risks associated with the normal operations carried out at Duro Felguera, including all risks related to operating procedures and the efficient and effective use of the organisation's resources.

» **Financial**: risks related to the financial management of Duro Felguera and financial reporting.

» **Compliance**: the risk of non-compliance with external and internal regulations by the Company's management or employees.

A total of 31 risks have been identified in the "corporate" category, of which, once duly assessed, 10 were classified as critical risks, 14 as risks to be monitored and seven as risks to be maintained.

Of the 10 critical risks, six belong to the strategic category, two to the operational category, one to the financial category, and one to the compliance category.

One member of the Management Committee was assigned to each of the 10 critical risks as a Risk Officer responsible for managing the risk by defining and monitoring the action plans and KPIs required for that purpose.

Within the **Project Risk Control and Management** area, the following Internal Management Standard has been developed and implemented: "NIG-03: Control and Management of Project Risks". This standard or rule defines the responsibilities and the methodology that must be applied as a standard and integrated procedure when managing projects throughout the five phases of their life cycle: commercial opportunity, offer, award, performance and completion.

5. Doing business responsibly

5.1 Our management approach

For Duro Felguera, **corporate social responsibility (CSR)** means a commitment to sustainability, ethics and good practices. Its corporate strategy on CSR is therefore geared towards achieving a sustainable and socially responsible business model, and setting sustainable and socially responsible business goals and strategies.

The Company endeavours to become more competitive by adopting management practices underpinned by innovation, efficiency and sustainability, while promoting the application of principles of equality, transparency and trust in its dealings with stakeholders.

The CSR management framework at Duro Felguera is stated in the Corporate Social Responsibility Policy and the Code of Conduct, alongside various voluntary commitments. Duro Felguera has reaffirmed its commitment by embracing the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals (SDGs). These commitments were considered in the identification phase of the materiality analysis.

CSR Policy

The Company's CSR policy sets out the basic principles and general framework for action. It underpins the corporate responsibility strategy and practices and the commitments assumed with the Company's main stakeholders.

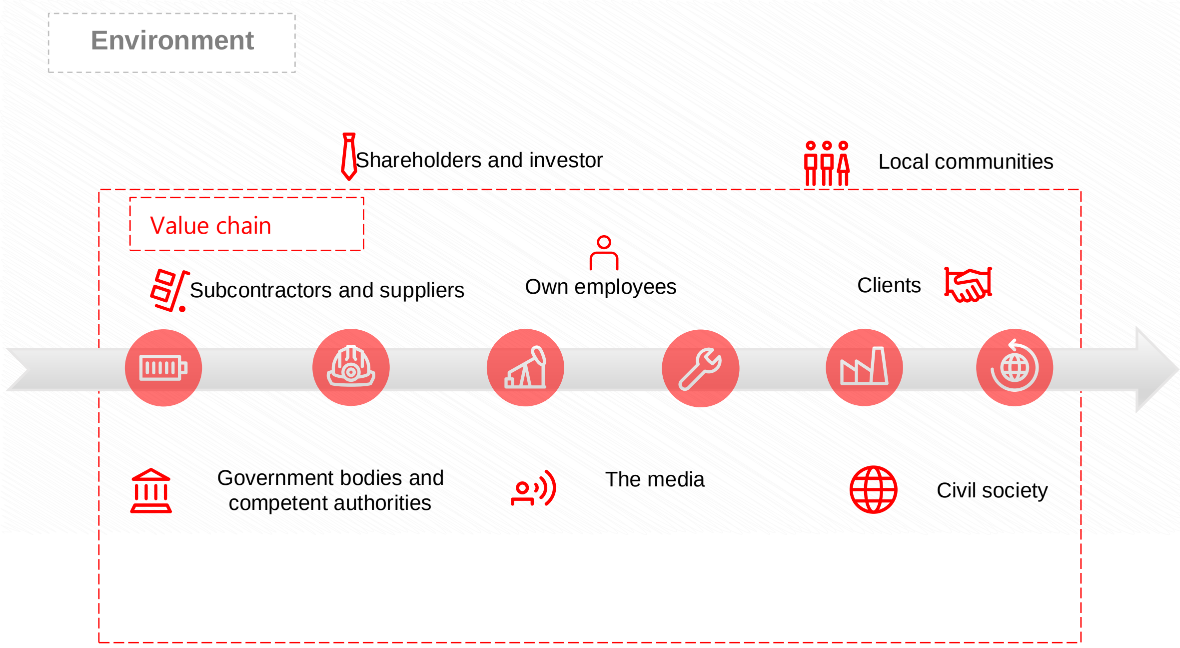
The principles that govern CSR at Duro Felguera are:

- →**Respect for the environment** in project execution.
- →**Strict health and safety policies**, ensuring the well-being of employees, facilities and project execution.
- →**Quality policies** aimed at continuous improvement of processes.
- →**Continuous training** for employees.
- →**Hiring young talent**.
- →**Transparency** in relations with our **shareholders and investors**.
- →**Ongoing dialogue** with unions.
- →Support for the **development of local communities**.
- →Involvement with **local social, cultural and sports organisations**.
- →**Compliance, supervision and monitoring** of existing legislation, the Company's internal rules and regulations, and good corporate governance practices undertaken by Duro Felguera.
- →**Cooperation with authorities and regulatory bodies.**

Duro Felguera's Corporate Social Responsibility Policy is publicly available on our website.

Dialogue with the value chain and stakeholder engagement

Dialogue and engagement with the value chain, meaning all parties involved in the production process, serves a key purpose of sharing the commitments assumed under the CSR policy, while also sharing strategies and strengthening the business. Good CSR practices are shared through codes of conduct with suppliers.



Fluid dialogue with stakeholders is key to creating a long-lasting climate of trust across all the different countries and regions in which Duro Felguera operates.

Duro Felguera has identified the key issues for each stakeholder group through both formal and informal channels, which can be both one-way and two-way. The table below shows the communication channels in place and the material issues to have been flagged in 2019 by each stakeholder group.

Stakeholder group	Communication channel	Material issue
Employees in-house	◊ Suggestion box ◊ Intranet ◊ Human Resources Department ◊ Interviews	» Health and safety in the value chain » Quality employment » Business and financial performance » Transparency and dialogue with stakeholders » Talent attraction and retention » Diversity and equal opportunities » Strategy and business development » Corporate governance
Subcontractors and suppliers	◊ Quality survey ◊ Regular presentations ◊ Direct contact via telephone and e-mail ◊ Tours of the facilities ◊ Tours and inspections carried out by DF	» Responsible supply chain » Health and safety in the value chain » Business and financial performance » Transparency and dialogue with stakeholders » Compliance with regulations and policies » Respect for human rights » Ethics
Clients	◊ Face-to-face meetings and regular conversations ◊ Fairs and forums ◊ Workshops and conferences ◊ Client surveys ◊ Corporate website	» Quality » Client satisfaction » Transparency and dialogue with stakeholders » Innovation
Shareholders and investors	◊ Investor Relations Department: online or telephone contact ◊ Contact form on the corporate website	» Business and financial performance » Strategy and business development » Transparency and dialogue with stakeholders » Compliance with regulations and policies » Risk management » Ethics » Anti-corruption » Tax transparency
Civil society and Local community	◊ Corporate website ◊ Annual report ◊ The media ◊ Social media (Youtube, LinkedIn and Twitter) ◊ Communication with local organisations ◊ Business associations ◊ Public and private bodies	» Local communities » Business and financial performance » Strategy and business development » Transparency and dialogue with stakeholders » Compliance with regulations and policies » Ethics » Climate change » Respect for human rights » Innovation » Environmental impact of projects » Waste and the circular economy » Efficient water management » Efficient use of raw materials
The media	◊ Corporate website ◊ Annual Report ◊ The media ◊ Local organisations ◊ Business associations ◊ Public and private bodies	» Business and financial performance » Strategy and business development » Transparency and dialogue with stakeholders » Anti-corruption » Compliance with regulations and policies » Ethics » Climate change » Respect for human rights » Tax transparency
Government bodies and competent authorities	◊ Institutional relations ◊ Statutory announcements	» Local communities » Transparency and dialogue with stakeholders » Anti-corruption » Compliance with regulations and policies » Tax transparency » Climate change » Respect for human rights » Waste and the circular economy » Efficient water management

Materiality analysis

A materiality analysis identifies the most relevant issues for companies and their stakeholders. Based on the result of the analysis, the priorities for action and the information to be presented in the report can be established.

Duro Felguera carried out its 2019 materiality analysis under the standardised guidelines of the Global Reporting Initiative (GRI). The following phases were completed:

Identification

External analysis analysed the main trends in the sector, the media, competitors' reports, information requested by leading sustainability analysts, the demands of the main clients in this area and the requirements of non-financial reporting regulations.

The internal analysis looked at internal sources such as the strategic plan, code of conduct, risk control and management maps and policies and the Company's financial reports and results.

Priorities

As a result of this analysis, **24 key topics** were selected for assessment. Sources of information were weighted according to their importance for the Company and its stakeholders.

Validation

Our choice of priorities was validated internally by the Corporate Responsibility Area of Duro Felguera, which examined material matters and their weight in relation to the Group's goals.

Finally, the Materiality Matrix for the CSR Report was prepared according to two axes of relevance: stakeholders and Duro Felguera itself.

Material issues

Our analysis showed that the following issues are material:

1. Health and safety in the value chain
2. Quality employment
3. Responsible supply chain
4. Quality
5. Business and financial performance
6. Transparency and dialogue with stakeholders
7. Compliance with regulations and policies and corporate commitments
8. Environmental impact of projects
9. Attracting, retaining and developing talent
10. Risk management
11. Tax transparency
12. Ethics
13. Anti-corruption
14. Corporate governance
15. Local communities
16. Diversity and equal opportunities
17. Respect for human rights
18. Client satisfaction
19. Climate change
20. Waste and circular economy
21. Efficient use of raw materials
22. Efficient water management
23. Strategy and business development
24. Innovation

5.2 Human resources

Duro Felguera's commitment to employees is set out in the CSR Policy, which establishes guidelines for the relationship:

» Prohibition of discrimination

» Respect for the freedom of association and collective bargaining

» Support and commitment in the implementation of public policies that promote equality of opportunity and merit-based corporate culture

» Recruiting and promoting professionals based on criteria of merits and abilities

Similarly, the Code of Conduct establishes respect for the fundamental rights and freedoms of Duro Felguera employees through the following pillars:

- **Work-life balance**: policies that support a balance between professional and personal life to enable our people to achieve integral fulfilment.
- **Equal opportunities**: promote the professional and personal development of all our employees on an equal footing.
- **Non-discrimination:** Duro Felguera employees must treat each other with respect, adopting cordial relations and a pleasant, healthy and safe working environment. The Group does not accept discrimination in the workplace and rejects harassment or any other conduct that may generate an environment that intimidates people or offends against their rights.
- **Training:** All employees must actively participate in the training plans.

Quality employment

People management at Duro Felguera drives orderly and solid growth by getting the best out of the talent and commitment of our professionals. We work hard to provide the right terms and remuneration and attractive career opportunities in a supportive and straightforward way so that our employees can achieve our business goals.

Duro Felguera implements People Management Systems that allow modern, agile and flexible management to encourage and develop our people's talent.

The Company's Human Resources Department frames policies and systems for managing people in accordance with the Company's strategy, with respect to each of the business lines.

Workforce distribution at year-end

At the end of 2019, Duro Felguera had 1,321 employees throughout the Group, with an average length of service of 8.30 years. This figure represents a reduction in absolute terms of 15.27% with respect to the 2018 workforce due to a business restructuring process that involved the relocation of the Madrid offices to the Asturias work centre, which caused a significant reduction in the Madrid workforce.

206 women

1,115 men

Employees by gender	2019	2018	Change (%) 2018 - 2019 to Total
Men	1,115	1,297*	-14.03%
Women	206	262*	-21.37%
TOTAL	**1,321**	**1,559**	**-15.27%**

*Figures corrected in respect of the 2018 NFS.

Employees by age	2019	2018	Dev. % 2018 - 2019 vs. total
Group < 30 years	74	93	-20.43%
Group 30-50 years	873	1,084	-19.46%
Group > 50 years	374	382	-2.09%
TOTAL	**1,321**	**1,559**	**-15.27%**

Employees by category	2019
Senior Management	9
Management	19
Middle Management	152
Qualified staff	577
Support positions	76
Operators	488
TOTAL	**1,321**

The categories have been adapted to the current structure in effect in 2019.

Employees by country	2019	2018	Dev. % 2018-2019 vs. total
Algeria	85	92	-7.61%
Argentina	2	43	-95.35%
Australia	1	3	-66.67%
Belgium	2	3	-33.33%
Belarus	10	7	42.86%
Brazil	2	4	-50.00%
Chile	1	30	-96.67%
Colombia	3	2	50.00%
Costa Rica	3	13	-76.92%
Dubai	23	30	-23.33%
Spain	1,165	1,270	-8.27%
India	7	22	-68.18%
Indonesia	0	5	-100.00%
Mexico	7	11	-36.36%
Peru	7	15	-53.33%
Romania	3	2	50.00%
Venezuela	0	7	-100.00%
TOTAL	**1,321**	**1,559**	

Workforce distribution by region and gender

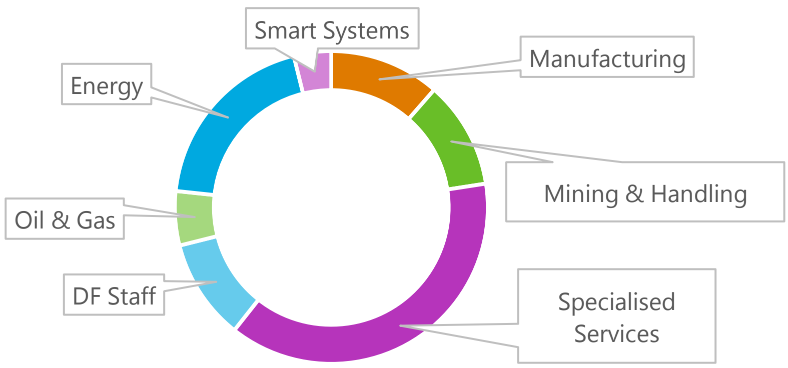
Geographical diversity is highly relevant due to the Company's ongoing international expansion. The Human Resources Department promotes and supports the International Mobility Service for employees hired in Spain and elsewhere.

The service processes and oversees the relevant formalities and conditions for international relocations by Duro Felguera employees.

Region[2]	Women	Men	Total2019	Total 2018	Dev. % 2018 - 2019 vs. total
Africa	10	75	85	92	-7.61%
Americas	8	17	25	125	-80.00%
Asia	5	25	30	57	-47.37%
Spain	174	991	1,165	1,270	-8.27%
Oceania	0	1	1	3	-66.67%
Rest of Europe	9	6	15	12	25.00%
TOTAL	**206**	**1,115**	**1,321**	**1,559**	**-15.27%**

Workforce distribution by business line

The workforce is distributed according to the needs of each business and its activities. In 2019, specialised services and energy had the most employees.



[2] All tables that mention geographical regions include the following countries:
Africa means Algeria
The Americas means Argentina, Brazil, Chile, Colombia, Costa Rica, Peru and Mexico
Asia means Dubai and India
Oceania means Australia
Rest of Europe: Belgium, Belarus and Romania

At the end of 2019, the distribution by category and age of the total workforce of Duro Felguera was as follows:

	Employees < 30 years-old		Employees 30-50 years-old		Employees > 50 years-old	
Category	Women	Men	Women	Men	Women	Men
Senior Management	-	-	1.26%	0.42%	-	1.17%
Managers	-	-	1.89%	0.84%	6.25%	2.34%
Middle Managers	-	-	12.58%	10.50%	15.63%	15.20%
Qualified staff	66.67%	45.76%	66.67%	39.08%	34.38%	42.11%
Support positions	33.33%	11.86%	16.98%	2.38%	43.75%	1.75%
Operators	-	42.37%	0.63%	46.78%	-	37.43%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

The categories have been adapted to the current structure in effect in 2019.

Attracting, retaining and developing talent

Duro Felguera regards its people as key agents steering its performance and business. We therefore hold scheduled and on-demand meetings to provide information of interest to employees and find ways of improving our performance.

As to job stability, 59% of our employees are under permanent employment contracts. In addition, in the current year the company has hired 831 people mainly in the Service Line (74% operating personnel).

The distribution of permanent and temporary contracts at year-end is shown below.

	Group < 30 years		Group 30-50 years		Group > 50 years	
Type of contract	Women	Men	Women	Men	Women	Men
Permanent contract	2	11	126	377	31	231
Temporary contract	13	48	33	337	1	111
TOTAL	**15**	**59**	**159**	**714**	**32**	**342**

Type of contract	Women	Men	Total 2019	Total 2018	Dev % 2018 - 2019 vs. total
Permanent contract	159	619	778	936	-16.88%
Temporary contract	47	496	543	623	-12.84%
TOTAL	**206**	**1,115**	**1,321**	**1,559**	**-15.27%**

Category	Permanent contract	Temporary contract	Total
Senior Management	9	0	9
Management	19	0	19
Middle Management	135	17	152
Qualified staff	395	182	577
Support positions	49	27	76
Operators	171	317	488
TOTAL	**778**	**543**	**1,321**

The categories have been adapted to the current structure in effect in 2019.

Region	Permanent contract	Temporary contract	Total 2019	Total 2018	Dev. % 2018 - 2019 vs. total
Africa	0	85	85	92	-7.61%
Americas	13	12	25	125	-80.00%
Asia	6	24	30	57	-47.37%
Spain	759	406	1,165	1,270	-8.27%
Oceania	0	1	1	3	-66.67%
Rest of Europe	0	15	15	12	25.00%
TOTAL	**778**	**543**	**1,321**	**1,559**	**-15.27%**

The company creates jobs under collaboration agreements with educational institutions (e.g., University of Oviedo) and works with local authorities when hiring for projects overseas. A breakdown of total new hires by age group and region is shown below.

	Group < 30 years		Group 30-50 years		Group > 50 years	
Region	Women	Men	Women	Men	Women	Men
Africa	26.67%	33.90%	3.14%	6.72%	3.13%	2.05%
Americas	-	-	3.77%	1.54%	6.25%	1.75%
Asia	13.33%	6.78%	1.89%	2.66%	-	0.58%
Spain	46.67%	59.32%	86.79%	88.52%	90.63%	94.74%
Oceania	-	-	-	0.14%	-	-
Rest of Europe	13.33%	-	4.40%	0.42%	-	0.88%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Average contracts in 2019

Average New Contracts (2019)

Gender						
Permanent contract		Temporary contract		Part-Time		TOTAL
Men	Women	Men	Women	Men	Women	
115	28	293	18	1	0	454

Type of contract	Age						TOTAL
	Group < 30 years		Group 30-50 years		Group > 50 years		
	Women	Men	Women	Men	Women	Men	
Permanent contract	**1**	**4**	**27**	**72**	**0**	**39**	**143**
Temporary contract	**3**	**23**	**14**	**195**	**1**	**75**	**311**
Part-Time	**0**	**1**	**0**	**0**	**0**	**0**	**1**
TOTAL	**4**	**28**	**41**	**266**	**1**	**114**	**454**

Category	Permanent contract	Temporary contract	Part-Time	Total
Senior Management	3	0	0	3
Management	5	0	0	5
Middle Management	36	5	0	41
Qualified staff	85	119	0	205
Support positions	4	9	1	14
Operators	9	178	0	187
TOTAL	**142**	**311**	**1**	**454**

The following tables show the number of dismissals in 2019, broken down by gender, age and category, including employee churn. It includes dismissals on both disciplinary and objective grounds. In 2019, average employee churn at the Company was 15.06%.

	Women	Men	Total 2019	Total 2018	Desv % 2018 - 2019 sobre total
Number of dismissals	4	15	19	38	-50.00%
Voluntary turnover rate	18.93%	14.35%	15.06%	-	-

	Group < 30 years	Group 30-50 years	Grupo > 50 años
Voluntary turnover rate	21.62%	17.64%	7.75%

	Group < 30 years		Group 30-50 years		Grupo > 50 años		Total
	Women	Men	Women	Men	Women	Men	
Voluntary turnover rate	20%	22%	21%	17%	6%	8%	15%

	Group < 30 years	Grupo 30 - 50 años	Grupo > 50 años	TOTAL
Number of dismissals in 2019	0	11	8	19
Number of dismissals in 2018	1	25	12	38
Dev. % 2018 - 2019 vs. total	100.00%	56.00%	33.33%	50.00%

Job category	Number of dismissals
Senior Management	2
Management	1
Middle Management	5
Qualified staff	6
Support positions	3
Operators	2
TOTAL	**19**

The categories have been adapted to the current structure in effect in 2019.

These figures reflect the difficult financial position at the end of 2018. In the past few months Duro Felguera was compelled to take steps to survive, thus preserving a highly regarded organisation that has done business for more than 160 years. We contained labour costs and framed a Strategic Plan for the period 2019-2023, to streamline, restructure and strengthen our business.

Duro Felguera has assumed a long-term commitment to nurturing the talent of its employees, who are driving the Company's growth and internationalisation.

The Human Resources Department is mainly concerned to plan the training and career development of our people to aid the achievement of our business goals.

For more than 25 years, Duro Felguera has been committed to training its workers and relying on government aid for employee training. In-house training is carried out through the FORMA-T tool, which allows us to control and monitor three phases of the training process, namely implementation, certification and evaluation.

Duro Felguera runs annual training plans that are agreed upon with management and look to the needs of the workforce at each Group company. In 2019, a total of 9,907 training hours were provided to 358 employees, giving an average training time of 7.50 hours per employee.

In 2019, more than 3,000 hours of training in occupational health and safety were delivered at different locations and worksites.

Post hierarchy	No. of employees trained		Training hours	
	Men	Women	Men	Women
Managers	8	3	119	32
Middle Managers	76	26	1,200	354
Operators	48	0	836	0
Support positions	11	28	123	248
Qualified staff	229	76	5,454	1,541
TOTAL 2019	**372**	**133**	**7,732**	**2,175**
TOTAL 2018	**147**	**68**	**3,337**	**1,384**
Chg. 2018/2019 (%)	153.06%	95.59%	131.71%	57.15%

The categories have been adapted to the current structure in effect in 2019.

Work-life balance and time management

The Company complies with legal requirements regarding paternity and maternity leave. Duro Felguera has an agreement in place on flexible working hours that allows our employees to take needed breaks from work. The Company provides employees with telecommute facilities, and flexible hours for the completion of the working day. Everyone is able to adapt their working day to their needs through flexible entry, meal and exit times.

All workers are covered by the collective agreement, except for Senior Management staff, who are not directly subject to the Workers Statute (*Estatuto de los Trabajadores*) but are governed instead by special legislation.

Aside from the specific aspects of the collective agreement, an Occupational Health and Safety Committee has been set up, comprising representatives from management, workers, and prevention officers. It meets regularly to discuss health and safety issues included in the agreement and specific issues in the field of prevention.

Annual working hours are as set out in the applicable collective agreement (metal industry of the Principality of Asturias), that is 1,736 hours.

Working hours are set at 8.75 h/day including a lunch break, except in the months of July and August and on working Fridays all year round, when there is a continuous workday of 6 h/day with no break.

During workdays with a lunch break, working hours are flexible, with entry permitted between 8:00 and 9:00, lunch between 13:30 and 15:30 and departure from 17:30 onward once all hours have been effectively worked. This flexible system of entering and leaving work also applies to days of uninterrupted work with no break, with entry permitted between 08:00 and 09:00 and exit between 14:00 and 15:00.

Duro Felguera closely monitors all cases of absenteeism at the Company. Total absenteeism in 2019 amounted to 107,056 hours. Absenteeism comprises all absences from work on working days, no matter the cause, excluding holiday leave and public holidays, and rest days granted to ensure that total annual working hours are not breached. To calculate these hours, the figure has been multiplied by eight.

Finally, as regards the minimum period of notice for operational changes, Duro Felguera complies with the terms under the applicable legislation.

Diversity and equal opportunities

Duro Felguera views diversity as an opportunity to identify, develop and promote talent. Diversity is thus a key element in the CSR Policy and the Code of Conduct. The presence of women in Duro Felguera is 15.59%. This is due to the context of the sector, which tends towards a higher male presence. Duro Felguera promotes gender diversity by hiring more women, and the system of recruitment and promotion is based on meritocracy.

All employees of Duro Felguera are covered by the collective agreement for metal industries in the province and, where the agreement is silent, by local laws. A breakdown by region is not included for this reason.

This is a key lever in the promotion of diversity since, with all workers under the same regulation, it is not possible to differentiate by gender.

In line with the foregoing, the Company has an Equality Plan which is currently being renewed.

Duro Felguera is committed to improving accessibility and incorporating minority groups into the labour market, and therefore works with the Public Employment Service by advertising vacancies open exclusively to the disabled. As to the presence of employees with disabilities, at year-end Felguera had six (6) people at the company Duro Felguera S.A. Meanwhile, DF Calderería Pesada, with a workforce of 151 employees, is in the process of obtaining a certificate releasing it from this obligation.

The office building at the Gijón Science and Technology Park has brought in line with applicable law governing the universal accessibility of facilities. It now has, among other improvements, lifts for staff with reduced mobility, special bathroom facilities and a parking space reserved for disabled individuals.

Remuneration policy

The Company's remuneration policy is defined by the agreement that applies to the given employee. Employees whose wages do not exceed those established by agreement are subject to a salary review in March each year, if appropriate. To calculate average remuneration, the fixed remuneration of the employee (permanent or temporary) is taken into account, as there has been no variable remuneration in the last year.

	Women	Men
Average remuneration in 2019	34,163.18 €	37,225.17 €
Average remuneration in 2018	33,928.00 €	37,068.00 €
Dev. % 2018 - 2019	0.69%	0.42%

Certain employees are subject to a target-based variable pay scheme, as agreed upon in addenda to their contract.

The pay gap at the Company is 8.23%, compared to 8.47% in 2018. In calculating the pay gap, the average remuneration of women was subtracted from that of men, and then divided by the average remuneration payable to men.

The resulting pay difference is a product of two key factors traditionally present within the industry in which Duro Felguera operates.

First, there is a higher average length of service of men compared to women due to the Company's historical gender composition. Secondly, the industry typically features a greater presence of men on the shop floor, which has the effect of widening the pay gap.

	Group < 30 years	Group 30-50 years	Grupo > 50 years
Average remuneration in 2019	20,375.64 €	35,449.31 €	43,017.76 €
Average remuneration in 2018	21,647.00 €	35,482.00 €	43,184.00 €
Dev. % 2018 - 2019	-5.87%	-0.09%	-0.38%

	Senior Management	Managers	Middle managers	Qualified staff	Support positions	Operators
Average remuneration	€216,666.67	€110,199.97	€62,253.75	€35,479.69	€22,435.24	€26,353.39

The categories have been adapted to the current structure in effect in 2019.

Finally, the ratio of the total annual remuneration of the best-paid person in the organisation (by region) to the median of the total annual remuneration of all employees (excluding the best-paid person) was as follows:

Region	Ratio – 2019	Ratio – 2018	Chg. 2018/2019 (%)
Africa	5.39	4.98	8.18%
Americas	4.37	3.77	15.99%
Asia	3.82	4.70	-18.64%
Spain	9.42	6.00	57.00%
Oceania	1.00	8.00	-87.50%
Rest of Europe	5.53	-	-

In view of Duro Felguera's extensive international presence and in order to retain key professional talent at the Company, we offer salaries to new entrants that are above the local minimum wage.

Region	Ratio – 2019	Ratio – 2018	Chg. 2018/2019 (%)
Africa	1.73	1.93	-10.36%
Americas	2.14	2.80	-23.57%
Asia	0.33	1.61	-79.50%
Spain	1.13	1.21	-6.61%
Oceania	7.79	1.13	589.38%
Rest of Europe	0.46	1.40	-67.14%

<u>Non-discrimination</u>
Duro Felguera has a protocol for action against sexual and/or moral harassment, which was updated in May 2017. This protocol includes the principles of non-discrimination on grounds of gender enshrined in Article 32 of the Collective Bargaining Agreement for the Metal Industries of the Principality of Asturias. This protocol was drafted in partnership with employee representatives.

There are two ways for an employee to report such cases:

- An "ethics" or whistleblower channel through which they can report known or suspected incidents.
- Communications to the Human Resources Department, either through the Human Resources Department of each entity or directly through Management. There is also the possibility of reporting to an employee representative who will notify the Human Resources Department.

5.3 Health and safety[3]

Achieving the best possible working conditions has always been a key priority within the overall strategy of the Duro Felguera Group. All people at Duro Felguera and all personnel of our partner companies on the projects must be allowed to work in the best possible working environment.

The Company continuously strives to improve occupational health and safety, in the form of preventive action that allows us to achieve the ultimate objective of ZERO accidents at work sites and on projects. Here, the Duro Felguera group invests heavily in human resources, in social, economic and organisational activities, so as to ensure that occupational health and safety remains a common and integrated principle across all of its lines of business and activities and at all levels of its structure.

With the Health and Safety Policy serving as a clear declaration of the Company's intent in this area, a Health and Safety Management System has been drawn up to establish appropriate conditions, procedures, functions and responsibilities within the organisation, to apply preventive action and to establish continuous improvement as the driving force behind the Company's actions on this front.

Our ongoing work in this area has been recognised for a further year in the form of the OHSAS 18001:2007 certification for all the business lines and areas of Duro Felguera. Given the strength of our existing system, and the improvements made to our safety and health standards, the Company now aims to obtain ISO 45001:2018 assurance in 2020, which raises the bar when it comes to assessing health and safety aspects at companies.

In 2019, we had no work-related accidents with fatalities in any location or country.

	Own employees 2018		Own employees 2019		% Changing
	Men	Women	Men	Women	Men
Accident with loss[4]	30	0	32	0	7%
Frequency rate[5]	9.36	0	11.33	0	21%
Injury severity rate[6]	0,42	0	0,83	0	95%
Professional illness[7]	3	0	4	0	33%

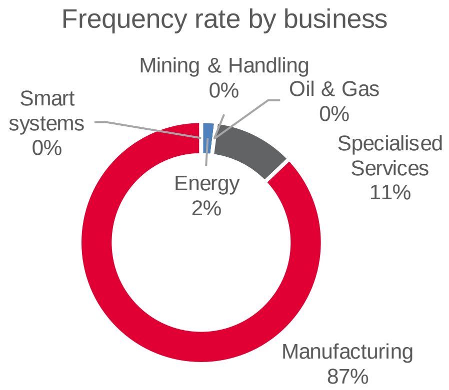
[3] All reported information is according to Directive 89/391/EEC on the introduction of measures to encourage improvements in the safety and health of worker at work. ESAW: EUROPEAN STATISTICS ON ACCIDENTS AT WORK This criterion does not include: accidents going to or from work, relapses, or accidents involving leave of absence that lasts less than three days.

[4] 32 accidents involving leave of absence (national staff 31 and local staff 1) All accident victims are male.
National staff: 28 accidents in Spain, 2 accidents in Belgium, 1 accident in Algeria. Local staff: 1 accident in Argentina.

[5] Frequency rate: Represents number of accidents with loss during working day each million working hours .

[6] Injury severity rate: Represents number of lost working days each thousand working hours.

[7] All 4 professional illnesses with leave of absence occurred in Spain. (All of them are male).



Duro Felguera has found that the accident frequency rate among subcontracted personnel is 1.83[8].

Industrial health actions have been carried out on a representative population of more than 95 workers. In addition to these direct measurements of real working conditions, 96 non-employee environmental samples were taken to complement the direct measurements and provide the necessary arguments for an overall evaluation of the working environments. The objective result, supported by 161 analyses, is transferred to 63 health reports, which are later reported to employees themselves.

Working conditions, together with the conclusions of the health and ergonomic reports, are reviewed and transferred to the Health Monitoring Service, which in turn uses the established medical protocols. A total of 1316 health screenings were conducted in 2019 under these protocols. When required, tests are supplemented by specific analyses and further tests that provide a highly specific profile of a worker's occupational health status.

5.4 Environment

Duro Felguera's business activities impact the environment. The Company therefore works to minimise the impact of its projects by making environmental management an integral part of its strategy. As an international enterprise, its activities can generate a variety of environmental impacts, though mostly in the regions in which it undertakes its projects.

The Company works on two main fronts when integrating environmental management and reducing the environmental footprint of its projects:

1. Ensuring compliance with environmental requirements in each country by conducting in-depth studies of the law at both regional and state levels. The aim is to anticipate possible obligations and requirements when attempting to secure the permits or licenses needed to carry out the projects.

[8] Note: 12 accidents / 6,567,381 hours worked x 1,000,000

2. Preventing and minimising impacts throughout the project life cycle: identification and regular assessment of all material environmental impacts across all phases of the project: design, construction and manufacture, operation and maintenance.

Environmental Policy

To champion environmental concerns and make them part of its strategic business management, in 2019 Duro Felguera approved the corporate Environmental Policy effective across the entire Group, so as to ensure that projects are performed and services rendered in a sustainable manner and with the utmost respect for the environment.

The policy aims to establish a common framework for environmental matters and quality, enabling the Company to coordinate the various plans and measures in place while respecting the autonomy and unique circumstances and needs of each business unit.

Environmental management

Duro Felguera has embraced the ISO 14001:2015 - Environmental management systems (EMS) standard as a means of preventing pollution and enabling legal compliance and the continuous improvement of its environmental performance.

This ongoing review ensures that the Company not only complies with prevailing environmental requirements, but also identifies future opportunities to enhance its environmental performance, linking this to its approach as a sustainable company.

Meanwhile, having a certified and annually audited Environmental Management System in place allows the Company to control and comply with applicable environmental law across all its activities, which in 2019 attracted no fine or sanction.

Efficient management of natural resources

To ensure the sustainable management of resources, Duro Felguera controls all consumption of resources (water, electricity and paper) across all its fixed centres: Central Offices, Tooling Centre and DF Calderería Pesada facilities.

The measures put in place are intended to cut consumption of these resources at offices, as described in the Manual of Good Environmental Practices.

Some of the most common practices carried out during Duro Felguera projects are: control of atmospheric emissions (noise and particles) and efficient waste management.

Water consumption

Duro Felguera controls water consumption at its fixed centres: the head offices of the Science and Technology Park (Gijón), its Tooling Centre (Llanera) and the workshop of Calderería Pesada. In 2019, a total of 2,537 m^3 of water was consumed at the Company's fixed centres (Science and Technology Park of Gijón and Tooling Centre in Llanera), while 7,933 m^3 was consumed at the workshop of DF Calderería Pesada.

Combined water consumption of 10,470 m3 at the central offices of the Science and Technology Park of Gijón, the Tooling Centre and the workshop of DF Calderería Pesada.

Both fixed centres and the DF Calderería Pesada workshop are all connected to the municipal water supply network, and the impact on the water environment is not considered significant.

As the Company carries out many of its projects on its clients' own premises or facilities, it is typically the client that monitors consumption, with Duro Felguera therefore unable to exercise any direct control.

Consumption of raw materials

In 2019, DF Calderería Pesada (the company's manufacturing unit) acquired 2,972 tonnes of metal laminates.

Any surplus from this manufacturing process is stored for potential reuse in new manufacturing or auxiliary processes. DF Calderería Pesada therefore evaluates, from the initial design stage, the possibility of reusing this stock material, provided that applicable quality standards, manufacturing codes and the end client allow for this. It is also proactive in making the necessary changes and raising proposals to the customer in order to optimise the total amount of material used.

Once this stock material has become too small to be used, it is recycled and therefore enters the life cycle of the raw material once again to produce new metal products.

In 2019, a total of 363 tonnes of metal waste was recycled.

Waste and the circular economy

Duro Felguera's waste management and handling strategy is essentially to minimise, reuse and recycle the waste generated when carrying on its business activities and projects.

Waste management is performed with strict regard for local environmental law in each country and Duro Felguera's own policies and procedures and by picking the right final disposal method for each type of waste generated.

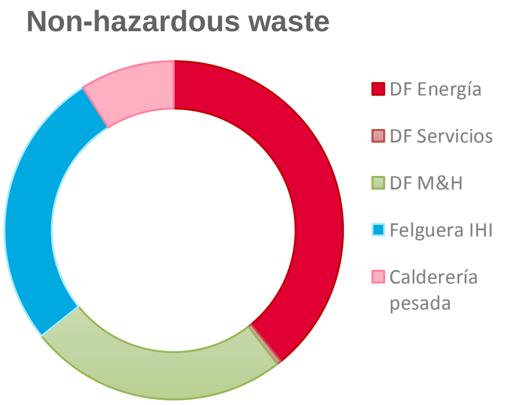
Significantly, all Duro Felguera projects are carried out with adequate separation and management of waste, with special attention paid to polluting hazardous waste.

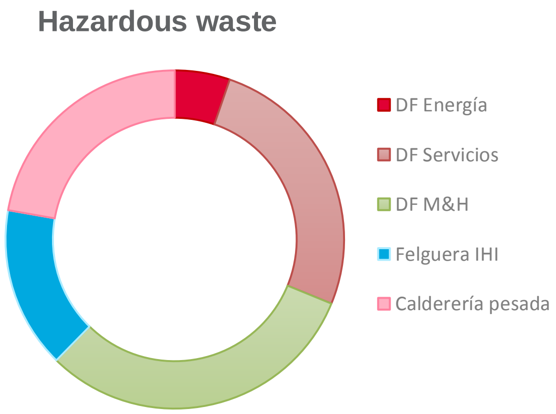
The following table shows the waste generated in 2019 by Duro Felguera's activities, broken down by business unit.

Kilograms	Hazardous waste 2018	Hazardous waste 2019	Change (%)
DF Energía	86,170.00	521.08	-99%
DF Servicios	4,261.00	2,568.00	-40%
DF M&H	8,851.30	3,084.00	-65%
FELGUERA IHI	10,556.00	1,530.00	-86%
Heavy fabrication	6,420.00	2,201.00	-66%
Total	**116,258.30**	**9,904.08**	**-91%**

Kilograms	Non-hazardous waste 2018	Non-hazardous waste 2019	Change (%)
DF Energía	12,354,661.00	679,420.00	-95%
DF Servicios	22,420.00	7,970.00	-64%
DF M&H	8,815.50	425,537.00	4727%
Felguera IHI	208,301.34	459,880.00	121%
Heavy fabrication	192,580.00	154,880.00	-20%
Total	**12,786,777.84**	**1,727,687.00**	**-86%**

The non-hazardous waste generated by DF Caldería Pesada is ultimately disposed of. Meanwhile, 58% of the hazardous waste generated by the Heavy Fabrication unit is recovered by the end waste manager.





As for the management of waste generated by the remaining businesses, Duro Felguera, in compliance with applicable law, relies on authorised waste management companies to handle all its hazardous and non-hazardous waste.

Climate change

Duro Felguera has embraced a firm commitment to fighting climate change. For this reason, it works to monitor and minimise the greenhouse gas (GHG) emissions generated by its activities. Direct emissions are mainly the product of fuel consumption, while indirect emissions are down to electricity consumption.

In 2019, the Company also reported its emissions derived from fuel and electricity consumption at its central offices and at DF Caldería Pesada. The reporting scope has been set at this level because the other business units work at the clients' facilities and therefore have no direct control over consumption and billing.

Emissions resulting from Duro Felguera's activities: 1,388 tonnes of CO_2 eq.

Direct emissions

Direct emissions from fuel consumption amount to 660 tonnes of CO2 equivalent:

	Fuel consumption - 2019		
	Offices	DF Calderería Pesada	Unit
Natural gas[9]	840,879	1,252,976	kWh
Gas oil	1,513.66	54,764	litres
Propane	-	-	litres
Gasoline	-	826	litres

The following table shows a percentage comparison of CO2 consumption from direct emissions.

	CO2 equivalent (kg) 2018		CO2 equivalent (kg) 2019		Change (%)	
	Offices	DF Calderería Pesada	Offices	DF Calderería Pesada	Offices	DF Calderería Pesada
Natural gas	264,073.77	747,824	170,698.44	254,354	-35%	-66%
Gas oil	5,408	181,921	3,773.55	136,527	-30%	-25%
Propane	-	8,815	-	0		-100%
Gasoline	-	900	-	1,782		98%

Indirect emissions

Indirect emissions from electricity consumption amount to 821 tonnes of CO2 equivalent.

	Energy consumption - 2019 (kWh)[10]	
	Offices	DF Calderería Pesada
Electricity	1,134,008.62	1,906,688

The following table provides a percentage comparison of CO2 consumption from indirect emissions.

	Kg of CO2 eq. – 2018		Kg of CO2 eq. – 2019		Change (%)	
	Offices	DF Calderería Pesada	Offices	DF Calderería Pesada	Offices	DF Calderería Pesada
Electricity	1,045,299	550,103	306,182	514,806	-71%	-6%

[9] Emissions and certain natural gas consumption figures are estimated.
[10] Electricity consumption has been estimated for certain months.

Environmental awareness

Duro Felguera knows the importance of environmental risk awareness in connection with its business activities and in 2019 it continued to train its workers and subcontractors to make them fully aware of the Group's environmental strategy. Key initiatives here included:

- Induction talks by the site environmental officer for all personnel due to work on site.
- On-site talks by the environmental officer on specific environmental concerns.
- Distribution of tri-fold leaflets on key environmental aspects to bear in mind.
- Environmental awareness campaigns; posters and signage to stress the importance of proper waste management, coinciding with the European Week for Waste Reduction.

Environmental emergencies

Duro Felguera draws up specific Environmental Emergency Plans for all of its activities, clearly explaining the steps for spotting and responding to possible environmental accidents and emergencies.

The effectiveness of the emergency plans is regularly checked by carrying out environmental emergency drills.

If a drill is out of the question, Felguera carries out training activities, which may involve talks or training courses to raise awareness of the response protocol set out in the Environmental Emergency Plan.

5.5 Quality

Duro Felguera views quality as the basis for creating value for its stakeholders, including its customers, its owners and its suppliers and subcontractors. It has therefore approved and released a Corporate Quality Policy, which enshrines the strategic values to be followed:

- **Commitment to knowing, meeting and enforcing all applicable requirements and delivering on customer expectations**.
- **Combining a healthy return on the projects with customer satisfaction.**
- **Entrenching the culture of continuous improvement** and management excellence in a bid to become more competitive and create value for stakeholders.
- **Engaging employees** and maintaining **channels of communication** with all stakeholders.

This Policy takes the practical form of a Quality Management System for all Duro Felguera products.

Quality Management System

Duro Felguera has implemented a Quality Management System (QMS) that adheres to ISO 9001:2015 across all products. The system is geared towards the customer, continuous improvement and risk-based thinking as the main levers in achieving professional excellence.

Duro Felgueras relies on its Quality Management System to ensure compliance with all contractual and legal requirements applicable to its products. In essence, Duro Felguera's QMS seeks to identify and control Company processes, identify and control associated risks, and provide the resources needed to ensure they run effectively.

The processes are described through procedures and work instructions where responsibilities, monitoring methods and control indicators are all identified. Continuous monitoring of processes and early flagging of risk factors allows us to define quality-based targets for continuous improvement.

Critical processes for the business activities of Duro Felguera include:

» Commercial Process
» Engineering Process
» Quality Management and Control Process
» Environmental Management Process
» Health and Safety Process
» Tooling and Control of Measuring Equipment Process
» Project Management and Performance Process
» After-sales Process
» Control and Project Risk Management Process
» Resource Management Process
» System Processes

The QMS Management System at Duro Felguera has been certified by Lloyd's Register under ISO9001:2015 since the 1990s.

Thanks to the Group's focus on quality over the years, Duro Felguera has become synonymous with quality in the market and the entire the organisation is geared towards this goal, led by the Management of Duro Felguera.

Customer satisfaction

According to the principles of the Quality Policy, Duro Felguera views customer satisfaction as being fully compatible with the economic performance of its projects. Customer satisfaction hinges not only on strict compliance with the specified requirements, but also on identifying and meeting their expectations. To achieve this, Duro Felguera defines and maintains communication channels throughout all phases of project execution, enabling it gauge levels of customer satisfaction and take corrective action if needed.

Communications with the customer are centralised at the Commercial department during the offer phase and are then handled by the Project Manager during the performance phase. Doing so provides a single point of contact, thus making it easier to gauge their degree of satisfaction.

Aside from the Commercial Department and Project Management, customers and other stakeholders are free to approach the Management of Duro Felguera whenever they deem this necessary to resolve any concerns regarding compliance with contractual commitments.

To track and control the degree of customer satisfaction, Duro Felguera has an indicator system in place that aggregates possible customer grievances, the results of satisfaction surveys and interviews with customers and the particular views of the Project Managers.

Any complaints received from the customer are logged in the Quality Management System and dealt with diligently by Duro Felguera. The register of customer complaints is analysed by Management at its review meetings to determine the appropriate actions for ensuring the continuous improvement of the system. No customer complaints were received in 2019.

Integrated Quality and Environmental Systems

In early 2020, Duro Felguera will complete the process of integrating its quality (ISO 9001) and environmental (ISO 14001) systems into a single integrated system, which it has been working on over the latter half of 2019.

This new integrated system seeks to unlock the synergies of maintaining both systems while aligning them with the Company's new structure in 2019.

Aside from this significant change, the transition from the current OHSAS 18001 Health and Safety system to the new ISO 45001 standard will take place in 2020. This transition will benefit to some degree from the previous integration of the quality and environmental systems.

5.6 Human rights

Duro Felguera is firmly **committed to defending and protecting human rights and civil liberties**; a commitment explicitly expressed in various corporate policies and internal management rules.

The Company has enshrined this commitment in two key internal regulations: the Code of Conduct and the CSR Policy, both of which are compulsory and binding on all direct employees, as well as suppliers and subcontractors.

The Company's **Code of Conduct** embodies its commitment to respecting fundamental rights and public freedoms, focusing particularly on equal opportunities, non-discrimination, work-life balance and the right to receive training. These commitments correspond to articles 1, 7, 20, 24 and 26 of the **Universal Declaration of Human Rights**.

To guarantee transparency and make it easier for the Company's stakeholders to report irregular conduct or bad practices that violate the Code of Conduct and/or its Crime Prevention Model, Duro Felguera set up an **Ethics Line and Whistleblower Channel** in 2018. There were no complaints or incidents in 2019 related to possible violations of human rights.

The **Corporate Social Responsibility Policy** expands upon the commitments assumed by the Company in its Code of Conduct, ensuring that all DF activities reflect the Company's firm commitment to defending and protecting human rights and civil liberties, notably:

- It shall reject any form or manifestation of physical, psychological or moral harassment or abuse of authority, as well as any other conduct that might generate an environment that is either intimidating or offensive to human rights.
- It shall guarantee professional respect and mutual collaboration among the Company's employees and external collaborators, dispensing cordial and respectful treatment for all and ensuring an amenable, healthy and safe working environment.
- It shall prioritise the integral development of people and facilitate a healthy work-life balance.
- It shall recognise the rights of ethnic minorities in the countries in which it operates, and shall reject child labour and, in general, any other form of exploitation, while ensuring compliance with what the World Labour Organization has to say.
- It shall guarantee the utmost respect for diversity, equal opportunities and non-discrimination on grounds of gender, age, disability or any other circumstance, while also fostering diversity and social inclusion at all times and providing an adequate, decent and professional working environment.
- It shall do business with suppliers that respect all human rights and comply with all labour rights recognised in the domestic and international legislation prevailing in the territories in which they operate.

Duro Felguera works in various countries and is therefore committed to respecting internationally recognised human rights, including those enshrined in the Declaration on Fundamental Principles and Rights at Work and other fundamental conventions of the International Labour Organization.

The protection of human rights extends across the entire value chain, as is also stated in the CSR Policy. To prevent the risk of human rights abuses, Felguera insists that all suppliers and subcontractors sign a clause in their contract requiring them to accept the commitments set out in Duro Felguera's Corporate Social Responsibility Policy and Code of Conduct.

If any violation or abuse is detected, Duro Felguera will enforce the contractual clause entitling it to take action in response, ranging from financial penalties through to termination of the contract.

In 2019, there were no reports of human rights abuses by suppliers, nor was there any perceived risk of any of Duro Felguera's suppliers or subcontractors engaging in forced or compulsory labour, and nor was there any other incident of human rights abuses occurring in any of the countries in which the Group operated during that period.

5.7 Supply chain

Duro Felguera treats the sound management and control of its supply chain as key priorities in optimising and maximising its professional activity. To achieve this, the Company's Procurement Department closely tracks all operations and ensures the utmost transparency.

Duro Felguera differentiates between two types of supplier, depending on the purpose for which their services are arranged:

- **Corporate**: to respond to corporate needs. These suppliers provide the following services and supplies, among others: security services, cleaning, maintenance, stationery supplies, IT equipment, or consultancy services.
- **Project-specific:** catering to the needs of each project undertaken. Here, Duro Felguera may arrange engineering services, the supply of electromechanical equipment, the supply of bulk materials, civil engineering services, subcontractors to carry out electromechanical assembly work, on-site support services, among others.

The procedures and rules in place are there to ensure that all suppliers are treated and appraised under equal conditions, taking due account of project-specific criteria for all procurement processes.

In the realm of corporate social responsibility, Duro Felguera's CSR Policy and Code of Conduct (under section II.3.6 "Our customers and suppliers") sets out the **basic guidelines steering relations between the Company and its suppliers**:

- **Adopting responsible supply chain management practices** by championing sustainability initiatives.
- **Getting suppliers to act responsibly** by ensuring that all suppliers comply with Duro Felguera's principles and values in relation to business ethics, labour practices, health and safety, the environment, and the quality and safety of the products and services marketed and sold.
- **Doing business with suppliers that respect human rights** and comply with all labour rights recognised in the domestic and international legislation prevailing in the territories in which they operate.
- **Fostering objectivity, truthfulness and transparency** as the main principles governing relations between the Company and its suppliers.
- **Enhancing the environmental reputation** of the Company and its group in the eyes of their suppliers.
- **Applying and honouring the provisions of the Company's Code of Conduct,** as well as the safety regulations and practices with suppliers that the Company has put in place.

Local procurement

Duro Felguera advocates procurement from local suppliers, viewing this as a key criterion when arranging services from third parties. For Duro Felguera, a local supplier means any supplier with whom a contract is signed and whose head office is located in the same country in which Duro Felguera is involved in some project.

Notably, most purchases were made from local suppliers in 2019 across most of the countries[11] in which the Group has significant operations.

Countries with operations where significant purchases were made	Percentage of local procurement – 2018	Percentage of local procurement – 2019	Change
Algeria	100	75.81	-24.19%
Belgium	76	40.90	-35.10%
Belarus		2.86	-
UAE (Dubai)	100	67.42	-32.58%
Spain	63	91.09	28.09%
Mexico	52	98.30	46.30%
Peru	100	64.92	-35.08%
Romania	3	5.94	2.94%
TOTAL	42	59	17%

Risk management in the supply chain

As explained in the previous chapter of this report on respect for human rights, all suppliers and subcontractors are required to sign a clause in their contract insisting that they embrace the commitments set out in Duro Felguera's Corporate Social Responsibility Policy and Code of Conduct with the aim of preventing human rights abuses.

To ensure transparency and respect for the Code of Conduct, Duro Felguera has undertaken to eradicate all forms of gifts or gratuities from suppliers by 2020. Suppliers will be asked to refrain from sending any kind of gift at Christmas time, suggesting that the amount in question be donated to an NGO instead.

Meanwhile, and with regards to **environmental protection**, the Procurement Department passes on to suppliers all the relevant technical information provided by the engineering and project departments so as to ensure due compliance with the corresponding environmental requirements.

[11] Significant operation: operations in which procurement exceeds €100,000.

When quality audits are conducted, the auditor also reviews contractual requirements and compliance with the Company's internal regulations, especially the Code of Ethics.

Supplier assessments

Duro Felguera has a tool for assessing potential suppliers before a contract is signed, enabling it to anticipate possible risks within the supply chain.

Based on this assessment, DF determines whether the supplier merits a contractual relationship. If the parties do enter into a contract, the supplier may undergo further assessment and monitoring if deemed necessary. Duro Felguera has yet to identity any supplier that carries a significant risk to the principles and commitments it upholds.

No new suppliers were evaluated in 2019, since no new contracts were required for new supplies or critical services due to the level of progress made in the projects. Moreover, there were no apparent risks associated with any supplier whose services had already been arranged.

5.8 Innovation

Duro Felguera attaches huge importance to technological innovation as part of its business model. It treats sustained growth through technological development as one of its corporate values.

The corporate strategy on Corporate Social Responsibility, as described in its CSR Policy, views innovative management practices as a key element in making the Group more competitive.

Duro Felguera's innovation division provides support to all Group companies, promoting and backing all corporate initiatives that involve some form of innovation.

The R&D+i area runs an annual control of all innovation projects, while also tracking and monitoring progress. In 2019, we continued with the R&D+i projects that were already under way at the start of the year, most notably:

» Development of new production processes for the manufacture and supply of oversized equipment (SYAGEE)

The aim here is to develop new technical capabilities that will allow DF Calderería Pesada to manufacture oversized equipment. At year-end, the project was 60% complete.

» New automatic truck side-loading system – Nalón NCL

This project aims to develop new equipment for the automatic loading of trucks, to automate the process for those loads that were hitherto impossible using the existing solutions of Duro Felguera's Logistics Systems unit. This project was successfully completed in 2019 and has now entered the commercialization phase, with one such item installed in early 2020.

5.9 Community relations

Local community

When it comes to social and sustainable responsibility, Duro Felguera has pledged to collaborate and lend its full support in developing the local communities and territories in which it operates.

Duro Felguera seeks to generate positive impacts on the community through its business activities, while at the same time putting measures in place to prevent, manage and mitigate any possible negative impact arising from its activities.

The Company champions responsible and sustainable risk management, focusing on four key areas:

- **Strict compliance with prevailing legislation, the Company's own internal rules and regulations and the good corporate governance practices embraced by Duro Felguera,** delivering on client expectations and looking to cooperate at all times with the competent authorities.
- **Strict compliance with applicable environmental requirements** to prevent potentially negative impacts on the natural environment, including control actions such as continuous environmental monitoring.
- **Helping local communities grow**, mainly by procuring products and services from local suppliers, provided that doing so does not adversely impact the performance of the project.
- **Recruiting local personnel** wherever possible and complying at all times with international rules and standards, as well as those that apply locally in the country where the operation or project is carried out. The Company considers the health and safety of its employees to be an integral part of its social welfare work, dedicating significant resources and effort into preventing occupational accidents and promoting health and safety across all of its business activities.

The CSR Policy enshrines Duro Felguera's commitment to the economic and social development of local communities through actions that have a positive impact on society and by carrying out social welfare work, fostering research, development and innovation (R&D+i) and cooperating with local communities.

To aid in the development of the communities in which it operates, Duro Felguera stays in close contact with local stakeholders when performing its projects, while collaborating closely on various measures and initiatives. Because of Duro Felguera's business model, it is typically the end client who builds relationships with the local community and is largely responsible for organising and handling the different social development and environmental protection actions associated with this type of project, including environmental impact assessments.

Although the control and management of local communities often rests on the client's shoulders, the Company manages all the direct impacts of its own activities so as to leave as positive a footprint as possible on the community. Highlights here include:

→ **Health and safety of workers:** Duro Felguera sets up health and safety committees for its workers to ensure fluid communication between workers and project management.

→ **Helping the community:** the Company works hard to leave a positive footprint in all the countries where it operates by partnering up with local associations.

Duro Felguera took part in numerous initiatives in 2019, most notably the following:

PETACALCO Project, Mexico

Due to the ongoing construction of a bridge over the Balsas River, which separates the Mexican states of Michoacán and Guerrero in which the project is taking shape, Duro Felguera has been coordinating closely with local fishermen by providing donations to alleviate any possible impact the new bridge may have on fishing resources.

There have also been multiple donations of wood (boards, planks, strips, etc.) from the packaging material containing the equipment and machinery used on site. This wood goes to the most disadvantaged communities and areas and is then used to make rustic furniture and sometimes to fix up homes.

Meanwhile, numerous family information and awareness-raising campaigns have been launched, in which local Duro Felguera workers take their children to construction sites over the weekend so that the children can learn first-hand about the important work their parents do for the industrial development of the local area and also so that the workers can meet the families of their co-workers.

ACONCAGUA Project, Chile

Through the Aconcagua project in Chile, Duro Felguera has lent its support to numerous social development initiatives in the community of Concón and, by extension, within Chilean society. This support often takes the form of donations to charities and welfare organisations, such as the San José adoption foundation or the Teletón association for disabled children and young people.

An agreement was maintained with the municipality of Concón over the life of the project for the recruitment of local labour and for donations of surplus material left over from the demobilisation work at the end of the project. The donations included hoses, ladders and office furniture, which was delivered to the fire department of Valparaiso and to several schools in Concón.

Initiatives and partnerships

In 2019, Duro Felguera continued to build and maintain responsible and strategic alliances with numerous associations, organisations and foundations at regional, national and international level in a bid to improve dialogue with its main stakeholders.

In 2019, contributions made to associations totalled €8,734.90.

- FADE - Asturian Federation of Business Owners
- VALNALÓN ASSOCIATION OF EMPLOYERS AND USERS
- ASSOCIATION OF SPANISH ISSUERS
- AENOR – Spanish Association for Standardisation and Certification
- SPANISH CHAMBER OF COMMERCE, A.C. – MEXICO

6. About this report

The Corporate Social Responsibility Report of Duro Felguera, S.A. covers the activities carried out across all Group companies and addresses economic, social and environmental matters, while also discussing their strategic approach, development and market position. The information presented refers to the 2019 financial year, running from 1 January 2019 through to 31 December 2019.

Duro Felguera draws up this report every year as a show of its desire to communicate with all stakeholders and to provide further insight into its business model, materiality and capacity to generate value.

Duro Felguera continues to implement the guidelines established by the Global Reporting Initiative (GRI) sustainability reporting standard. The 2019 CSR Report has been prepared with reference to the GRI.

External assurance

The information has been reviewed by EY, with a limited assurance of the information pursuant to Law 11/2018 of 28 December 2018 on non-financial information and diversity, and based on the selected GRI standards.

For any query, request or doubt you may still have after reading this report, please feel free to contact Ana Luz Feito Fernández at:
analuz.feito@durofelguera.com
rscdurofelguera@durofelguera.com

7. Table of contents required under Law 11/2018

General matters		Reference framework	Page	Reason for omission
Business model	Brief description of the Group's business model	GRI 102-1, 102-2, 102-4, 102-6	135 to 139	
		GRI 102-3	Duro Felguera S.A. Parque Científico Tecnológico, C/ Ada Byron, 90, 33203 Gijón, Asturias (Spain)	
		GRI 102-7	155-159 and 167-169	
		GRI 102-14	133 and 134	
		GRI 102-15	138-139 and 159-162	
General disclosures	Reporting framework	GRI 102-46, 102-47, 102-54	162-166 and 192	
Management approach disclosures	Description of applicable policies	GRI 103-2	151-152 and 162-163	
	Results of those policies	GRI 103-3	166-167, 173-175 and 183-185	
	Main risks related to these issues and connected to the Group's activities	GRI 102-15	159-162	
			Annual Corporate Governance Report: section E (Risk control and management systems) and Section F (Internal risk control and management systems in relation to the financial reporting process (ICFR))	

Environmental matters		Reference framework	Page	Reason for omission
Environmental management	Current and foreseeable effects of the company's activities on the environment and, as the case may be, on health and safety	GRI 307-1	178	
	Environmental assessment or certification procedures	Internal framework: qualitative description of internal procedures for environmental assessment and certification	179	
	Resources dedicated to the prevention of environmental risks	Internal framework: qualitative description of the main resources dedicated to the prevention of environmental risks	178, 183	
	Application of the precautionary principle	Internal framework: description of approach and internal consideration of the precautionary principle	178-183	
	Amount of provisions and safeguards for environmental risks	Internal framework: qualitative information regarding provisions and guarantees established for environmental risks	183 Note 26 provisions to the financial statements	

Pollution	Measures to prevent, reduce or repair carbon emissions (also includes noise and light pollution)	-	–	Given the type of business it carries out, DF does not generate light pollution
Circular economy and waste prevention and management	Waste prevention, recycling and reuse measures and other forms of waste recovery and disposal	GRI 301-2, 301-3, 306-2	179-181	
	Actions to combat food waste	-	–	DF does not engage in any food-related activity
Sustainable use of resources	Responsible water consumption and supply based on local restrictions	Internal framework: quantitative description of water consumption	179	
	Consumption of raw materials	Internal framework: quantitative description of water consumption	180	Data are for the DF Calderería Pesada business unit. In the rest of Df's business units, projects are management from a design viewpoint. Therefore, the most significant work units of material consumption (civil engineering and structures) are subcontracted in fully. There is no access to data for subcontractors.
	Measures in place to ensure more efficient use of resources	Internal framework: qualitative description of measures	180	The manufacturing workshop (DF Calderería Pesada) reuses surplus

				sheet metal reused (cuttings). This quantity of stock material is low, because a specific calculation is made before any purchases to optimise stocks and adjustment them to manufacturing needs
	Direct and indirect energy consumption	Internal framework: qualitative description of the main resources used in energy consumption	182	
	Measures in place to improve energy efficiency	Internal Framework: qualitative description of measures in place to improve energy efficiency	-	An energy efficiency audit of the manufacturing workshop (DF Calderería Pesada) was conducted in 2016. A new audit is being considered for the end of 2020
	Use of renewable energies	-	-	The only available information we have on energy sources relates to the commercial network We do not use renewable energies.
Climate change	Material aspects relating to the greenhouse gas emissions generated as a result of the Company's activities	Internal framework: qualitative description of CO2 emissions	182	Our operations do not generate greenhouse gas emissions beyond those accounted for in calculating tonnes of CO2 contributed

	Measures in place to adapt to the consequences of climate change	Internal framework: qualitative description of the main resources to adapt to climate change	181-182	
	Voluntary medium- and long-term targets in place to reduce greenhouse gas emissions and the resources implemented to that end	-	-	Although there are no quantified reduction targets, the DF Manual of Good Environmental Practices does include reduction measures
Protection of biodiversity	Measures in place to preserve or restore biodiversity	-	-	We do not engage in any activities that might affect biodiversity
	Impacts caused by activities or operations in protected areas	-	-	We do not operate in these areas

(€ thousand)

Corporate matters and employees		Reference framework	Page	Reason for omission
Employment	Total number and distribution of employees by country, gender and age	GRI 405-1	168 Annual Corporate Governance Report Section C. Company administrative structure	
	Total number and distribution of employees by job category	GRI 401-1	168	
	Total number and distribution of types of employment contract	GRI 401-1	170	
	Annual average by contract type (permanent, temporary and part-time), by gender, age and job category	GRI 401-1, 405-1	171 Annual Corporate Governance Report Section C. Company administrative structure	
	Number of dismissals by gender, age and job category	GRI 401-1	172	
	Average remuneration by gender, age and job category	GRI 405-2	175	
	Pay gap	GRI 405-2	175	

	Average remuneration of directors, by gender	GRI 102-35	149-150 The individual remuneration of directors is explained in the 2018 Annual Directors' Remuneration Report; in the Report of the Appointments and Remuneration Committee on the Directors' Remuneration Policy for 2018, 2019 and 2020; and in the Remuneration Policy for Senior Executives of Duro Felguera, S.A.	

(€ thousand)

	Average remuneration of executives, by gender	GRI 102-35	149 The individual remuneration of directors is explained in the 2018 Annual Directors' Remuneration Report; in the report of the Appointments and Remuneration Committee on the Directors' Remuneration Policy for 2018, 2019 and 2020; and in the Remuneration Policy for Senior Executives of Duro Felguera, S.A.	
	Implementation of work disconnection policies	Internal framework: qualitative description of the agreement on flexible working hours	173	
	Employees with disabilities	Internal framework: quantitative description of employees with disabilities	174	
Organisation of work	Organisation of working hours	Internal framework: qualitative description of the organisation of working hours	173	

(€ thousand)

	Number of hours of absenteeism	Internal framework: No. hours of absenteeism: includes all absences from work on working days, no matter the cause, excluding holiday leave and public holidays, and rest days granted to ensure that total annual working hours are not breached. To calculate these hours, the figure has been multiplied by eight.	174	
	Measures aimed at improving the work-life balance and ensuring a suitable balance between both parents	Internal framework: qualitative description of the measures in place to improve the work-life balance	173-174	
Health and safety	Health and safety conditions in the workplace	Internal framework: qualitative description of health and safety conditions in the workplace Internal framework: Directive 89/391/EEC	177-178	
	Number of occupational accidents by gender	GRI 403-2	177	
	Accident frequency rate by gender	GRI 403-2 Internal framework: Directive 89/391/EEC	177	

(€ thousand)

	Injury severity rate by gender	GRI 403-2 Internal framework: Directive 89/391/EEC	177	
	Occupational diseases by gender	GRI 403-2 Internal framework: Directive 89/391/EEC	177	
Employment relations	Organisation of dialogue between the company and employees, including procedures for informing, consulting and negotiating with employees	GRI 103-2, 402-1, 403-1	173-174	
	Percentage of employees covered by collective bargaining agreements, by country	Internal framework: Qualitative description of employees covered by collective agreement	173-174	
	Description of collective bargaining agreements, particularly in the field of occupational health and safety	GRI 403-4	170, 173, 174	
Training	Policies in place in relation to training	GRI 103-3, 404-2	173	
	Total number of training hours by job category	GRI 404-1	173	
Accessibility	Universal accessibility for people with disabilities	Internal framework: qualitative measures to provide universal accessibility to facilities by people with disabilities	175	

(€ thousand)

Equality	Measures put in place to foster equal treatment and opportunities for women and men	GRI 401-3, 405-1, 405-2	142, 152-153, 174 Annual Corporate Governance Report Section C. Company administrative structure	
	Equality plans, measures taken to promote employment, protocols to combat sexual and gender-based harassment	Internal framework: qualitative measures to promote and ensure equal opportunities	142, 173-174 Annual Corporate Governance Report Section C. Company administrative structure	
	Integration and universal accessibility for persons with disabilities	Internal framework: qualitative description of integration and universal accessibility measures for people with disabilities	174	
	Anti-discrimination policy and, where applicable, diversity management policy	GRI 103-2, 406-1	142	

(€ thousand)

Human rights		Reference framework	Page	Reason for omission
	Application of human rights due diligence processes	GRI 102-16	133, 185-187	
	Measures to prevent the risk of human rights abuses and, where appropriate, measures to mitigate, manage and redress any abuses committed	Internal framework: qualitative information on the defence and protection of human rights GRI 102-16	152-153, 185-186	
	Reports of human rights abuses	GRI 406-1	185	
	Promotion of and compliance with the provisions of the ILO's fundamental Conventions relating to respect for freedom of association and the right to collective bargaining	Internal framework: qualitative information on commitment to the ILO fundamental conventions	133, 185-186 DF has detected no cases in which the right to freedom of association or collective bargaining was at risk, in either its own operations or those of its suppliers. However, it is working on this matter and has tools in place to mitigate such risks	

(€ thousand)

	Eradication of discrimination in employment or occupation	Internal framework: qualitative information on the refusal to tolerate discrimination in any form	142, 166-167, 185-186	
	Eradication of forced or compulsory labour	Internal framework: qualitative information on the protection of human rights and the rejection of forced labour	185-187 DF has identified no risk of forced labour in its own operations or among its suppliers. However, it is working on this matter and has tools in place to mitigate such risks	
	Effective abolition of child labour	Internal framework: qualitative information on the protection of human rights and the abolition of child labour across the value chain	185-186 DF has identified no risk of child labour in its own operations or among its suppliers. However, it is working on this matter and has tools in place to mitigate such risks	
	Measures in place to prevent corruption and bribery	GRI 419-1	153-154 Note 36 to the 2019 financial statements	
			151-154	

	Measures to combat money laundering	Internal framework: qualitative description of anti-money laundering measures		
	Contributions to foundations and non-profit entities	-	–	No contributions have been made to foundations or non-profit entities

(€ thousand)

Information on the company		Reference framework	Page	Reason for omission
Company commitments to sustainable development	Impact of the Company's activities on employment and local development	GRI 102-42, 102-43	188	
	Impact of the Company's activities on local populations and territories	GRI 413-2	190-191	
	Relations maintained with local community agents and forms of dialogue with those agents	GRI 102-43	162-164, 190-191	
	Association or sponsorship actions	GRI 203-1, 102-12, 102-16, 102-13	191	
Subcontracting and suppliers	Making social, gender equality and environmental concerns part of the procurement policy	GRI 102-9	187-189	
	Consideration of social and environmental responsibility concerns in relations with suppliers and subcontractors	Internal framework: qualitative information on the relationship with suppliers and subcontractors	187-189	
	Supervision and audit systems and the results of those systems	GRI 407-1	189	
Consumers	Measures to protect the health and safety of consumers	Internal framework: qualitative information on consumer health and safety measures	183-184	

	Grievance and claims systems	GRI 418-1	185	
	Grievances received and the solution or response given	Internal framework: quantitative information on the number of complaints received in 2019	185	No fines or sanctions for amounts deemed significant to the DF Group were imposed or handed down during the year by virtue of final judgment or decision delivered under litigation or administrative proceedings involving environmental, marketing and labelling, safety or privacy matters. Note 36 to the 2019 Financial Statements
Tax information	Profit obtained, country by country	Internal framework: quantitative information on profits obtained	158	
	Income tax paid	Internal framework: qualitative information on income tax paid	158	
	Government subsidies and aid received	Internal framework: qualitative description and amount of all subsidies and aid received	155	

DURO FELGUERA, S.A. AND SUBSIDIARIES

Independent review report of the consolidated Non-Financial Information Statement corresponding to the financial year ended on December 31, 2019

(Free translation from the original in Spanish)

Building a better working world

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INDEPENDENT REVIEW REPORT OF THE CONSOLIDATED NON-FINANCIAL INFORMATION SATATEMENT 2019 DURO FELGUERA, S.A.

To the shareholders of DURO FELGUERA, S.A.:

Pursuant to article 49 of the Code of Commerce we have performed a verification, with a limited assurance scope, of the accompanying Consolidated Non-Financial Information Statement hereinafter NFIS) for the year ended December 31, 2019, of DURO FELGUERA, S.A. and subsidiaries (hereinafter, the Group), which is part of the 2019 Consolidated Director's Report of the Group.

The content of the NFIS includes additional information to that required by prevailing mercantile regulations in relation to non-financial information that has not been subject to our verification. In this regard, our assignment has been exclusively limited to the verification of the information shown in point 7 "Table of contents required by the law 11/2018" contained in the attached management report.

Responsibility of the Board of Directors

The formulation of the NFIS included in the consolidated Group management report, as well as its content, is the responsibility of the administrators of DURO FELGUERA, S.A. The NFIS has been prepared in accordance with the contents included in the current mercantile legislation and following the criteria of the Sustainability Reporting Standards from Global Reporting Initiative (GRI standards) selected, as well as those other criteria described in accordance with what is mentioned for each subject in point 7"Table of contents required by the law 11/2018" of the aforementioned management report.

The directors are also responsible for the design, implementation and maintenance of such internal control as they determine is necessary to enable the preparation of a NFIS that is free from material misstatement, whether due to fraud or error.

DURO FELGUERA, S.A. administrators are further responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFIS is obtained.

Our independence and quality control procedures

We have complied with the requirements of independence and other ethical requirements of the Code of Ethics for Accounting Professionals issued by the International Ethics Standards Board for Accountants (IESBA), which it is based on the fundamental principles of professional integrity, objectivity, competence and diligence, confidentiality and professional behaviour.

Our company applies International Standard on Quality Control 1 (ISQC 1), and therefore maintains a global quality control system that includes documented policies and procedures for compliance with ethical requirements, professional standards and legal provisions, and applicable regulations.

This assignment has been performed by a team of specialists in sustainability with extensive experience in the review of this sort of information.

Our responsibility

Our responsibility is to express our conclusions in an independent limited verification report based on the work performed, that refers exclusively to 2019. Our review has been performed in accordance with the requirements established in prevailing International Standard on Assurance Engagements 3000 “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” (ISAE 3000) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and the guidelines for verifying Non-Financial Statement, issued by the Spanish Official Register of Auditors of Accounts (ICJCE)

The procedures carried out in a limited assurance engagement vary in nature and execution timing and are smaller in scope than reasonable assurance engagements, and therefore, the level of assurance provided is likewise lower.

Our work consisted in requesting information from Management and the various Group units participating in the preparation of the NFIS, reviewing the process for gathering and validating the information included in the NFIS, and applying certain analytical procedures and sampling review tests as described below:

- Meeting with Group personnel to know the business model, policies and management approaches applied, the main risks related to these matters and obtain the necessary information for our external review.
- Analyzing the scope, relevance and integrity of the content included in the NFIS for the year
  2019 based on the materiality analysis made by the Group and described in section “Materiality analysis”, considering the content required by prevailing mercantile regulations.
- Analyzing the processes for gathering and validating the data included in the 2019 Non- Financial Statement.
- Reviewing the information on the risks, policies and management approaches applied in relation to the material aspects included in the 2019 NFIS.
- Checking, through tests, based on a selection of a sample, the information related to the content of the 2019 NFIS and its correct compilation from the data provided by the information sources.
- Obtaining a representation letter from the Directors and Management.

Conclusion

Based on the procedures performed at our verification and in the evidence that we have obtained has been looking manifest any that make us believe that the NFIS of the group for the year ended December 31, 2019 has not been prepared, in all material respects, in accordance with the content established in prevailing mercantile regulations and the criteria of the selected GRI standards selected, as well as other criteria described in accordance to the above described to each field in point 7 "Table of contents required by the law 11/2018" of the aforementioned management report.

Use and distribution

This report has been prepared as required by prevailing mercantile regulations in Spain and may not be suitable for any other purpose or jurisdiction.

ERNST & YOUNG, S.L.

(Signed in the original Spanish version)

Alberto Castilla Vida

May 22, 2020

ISSUER'S IDENTIFICATION

Year-end date: 31/12/2019

Tax identification code [CIF]: A-28004026

Company Name:

DURO FELGUERA, S.A.

Registered office:

ADA BYRON, 90, PARQUE CIENTÍFICO Y TECNOLÓGICO (GIJÓN) – ASTURIAS

A. CAPITAL STRUCTURE

A.1. Complete the following table on the company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
27/07/2018	48,000,000.00	4,800,000,000	4,800,000,000

Please state whether there are different classes of shares with different associated rights:
[ ] Yes
[√] No

At the General Meeting of 31 May 2019, the shareholders resolved to (i) decrease share capital by 43,200,000 euros by reducing the par value of all shares in order to restructure the Company's equity, leaving share capital at 4,800,000 euros; and (ii) to group together and cancel ("reverse split") all the shares comprising the Company's share capital to exchange them for newly issued shares in the proportion of one (1) new share for every fifty (50) old shares, increasing the par value of the shares from the one thousandth of a euro (€0.001) established after the share capital reduction, to five euro cents (€0.05), without modifying the share capital figure, thereby reducing the number of shares in circulation.

As a result of the above, from 31 May 2019 share capital was decreased by 43,200,000 euros to 4,800,000 euros.

A.2. Please provide details of the company's significant direct and indirect shareholders at year end, excluding any directors:

Name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
SABINO GARCÍA VALLINA	0.00	3.12	0.00	0.00	3.12
INDUMENTA PUERI, S.L.	0.00	7.57	0.00	0.00	7.57

Breakdown of the indirect holding:

Name or corporate name of indirect owner of the interest	Name or corporate name of direct owner of the interest	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
SABINO GARCÍA VALLINA	TSK ELECTRONICA Y ELECTRICIDAD, S.A.	3.12	0.00	3.12
INDUMENTA PUERI, S.L.	GLOBAL PORTFOLIO INVESTMENTS, S.L.	7.57	0.00	7.57

State the most significant shareholder structure changes during the year:

Most significant movements

Following the capital reduction and subsequent increase implemented in 2013, the company substantially modified its shareholder structure in such a way that the former leading shareholders reduced their holdings to a residual position.

In 2019, the following became significant shareholders:

Global Portfolio Investments, S.L with a direct interest of 9.52% and Indumentaria Pueri, S.L., with the same interest as an indirect shareholder.

La Muza Inversiones Sicav, SA with 5.17% as a direct shareholder and Abaco Capital SCIIC, SA, as an indirect shareholder with an equal stake.

Global Income SA SPF, with a direct interest of 4.17%.

TSK Electrónica y Electricidad, SA, a shareholder with a 3.12% interest, and Sabino García Vallina as an indirect shareholder with the same stake.

Azvalor Iberia FI, Mimosa Capital Sicav, Azvalor Internacional, Azvalor Value Selection Sicav SA, Cuenta Gestionada Salus (Aspen Trust Services), which together had a direct shareholding of 3.08%, and Alvaro Guzmán de Lázaro Mateos-Azvalor Asset Management SGICC SA, which, indirectly, through the above entities, controlled 3.08%.

Over the course of 2019, the significant shareholders reduced their holdings. Only those named in Section A.2 above remained as significant shareholders.

A.3. In the following tables, list the members of the Board of Directors (hereinafter "directors") with voting rights in the company:

Name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
ACACIO FAUSTINO RODRIGUEZ GARCIA	0.17	0.01	0.00	0.00	0.18	0.00	0.00
JOSÉ JULIÁN MASSA GUTIÉRREZ DEL ÁLAMO	0.03	0.00	0.00	0.00	0.03	0.00	0.00

Total percentage of voting rights held by the Board of Directors	0.21

Breakdown of the indirect holding:

Name of director	Name or corporate name of direct owner of the interest	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights	% voting rights that can be transmitted through financial instruments
ACACIO FAUSTINO RODRIGUEZ GARCIA	LOS CLÁSICOS Z, S.L.	0.01	0.00	0.01	0.00

A.4. If applicable, state any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are insignificant or arise in the ordinary course of business, except those that are reported in Section A.6:

Name of related party	Nature of relationship	Brief description
No data		

A.5. Indicate, as applicable, commercial, contractual or corporate relationships among owners of significant shareholdings and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Name of related party	Nature of relationship	Brief description
No data		

A.6. Describe the relationships, unless insignificant for the two parties, that exist between significant shareholders or shareholders represented on the Board and directors, or their representatives in the case of proprietary directors.

Explain, as the case may be, how the significant shareholders are represented. Specifically, state those directors appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders and/or companies in its group, specifying the nature of such relationships or ties. In particular, mention the existence, identity and post of directors, or their representatives, as the case may be, of the listed company, who are, in turn, members of the Board of Directors or their representatives of companies that hold significant shareholdings in the listed company or in group companies of these significant shareholders.

Name or company name of related director or representative	Name or company name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
No data			

Not applicable, as there are no Directors appointed by significant shareholders.

A.7. Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Corporate Enterprises Act (*Ley de Sociedades de Capital* or "LSC"). If so, describe these agreements and list the party shareholders:

[ ] Yes
[√] No

State whether the company is aware of any concerted actions among its shareholders. If so, provide a brief description:

[ ] Yes
[√] No

If any of the aforementioned agreements or concerted actions have been modified or terminated during the year, please specify expressly:

No amendments were made.

A.8. State whether any individual or company exercises or may exercise control over the company in accordance with Article 5 of the Ley de Mercados de Valores (“Spanish Securities Market Act” or “LMV”). If so, please identify them:

[ ] Yes
[√] No

A.9. Complete the following table with details of the company’s treasury shares:

At the close of the year:

Number of direct shares	Number of indirect shares (*)	Total percentage of share capital
		0.00

(*) through:

Name or corporate name of direct owner of the interest	Number of direct shares
No data	

Explain any significant changes during the year:

Explain significant changes
Since total redemption of treasury shares in 2018, the Company has not concluded any transactions.

A.10. Provide a detailed description of the conditions and terms of the authority given to the Board of Directors to issue, repurchase, or dispose of treasury shares.

At a General Meeting, the shareholders authorised the Board of Directors to carry out the derivative acquisition of treasury shares up to the maximum amount permitted by prevailing legislation for a period of five years from the date of the General Meeting, held on 22 June 2017.

A.11. Estimated free float

	%
Estimated free float	85.43

A.12. State whether there are any restrictions (articles of association, legislative or of any other nature) placed on the transfer of shares and/or any restrictions on voting rights. In particular, state the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market, and those regimes for the prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

[ ] Yes
[√] No

A.13. Indicate whether the General Meeting has agreed to take neutralisation measures to prevent a takeover bid under Law 6/2007.

[ ] Yes
[√] No

If so, please explain the measures approved and the terms under which such limitations would cease to apply:

A.14. State if the company has issued shares that are not traded on a regulated EU market.

[ ] Yes
[√] No

If so, please list each type of share and the rights and obligations conferred on each.

B. GENERAL MEETING

B.1. State whether there are any differences between the quorum established by the LSC for General Shareholders' Meetings and those set by the company and if so, describe them in detail:

[ ] Yes
[√] No

B. 2. Indicate and explain, if appropriate, if there are any differences with the system stipulated in the Corporate Enterprises Act (LSC) for adopting corporate resolutions.

[ ] Yes
[√] No

B.3. State the rules for amending the company's Articles of Association. In particular, state the majorities required for amendment of the Articles of Association and any provisions in place to protect shareholders' rights in the event of amendments to the Articles of Association.

The applicable rules are those provided in the Corporate Enterprises Act.

B.4. Give details of attendance at General Shareholders' Meetings held during the year of this report and the previous year:

	Attendance data				
General Meeting date	% In person	% By proxy	% remote voting		
			Online	Other	Total
22/06/2017	11.09	45.36	0.00	0.00	56.45
Free float votes	11.09	5.35	0.00	0.00	16.44
15/06/2018	2.27	38.28	0.00	0.00	40.55
Free float votes	2.27	23.28	0.00	0.00	25.55
25/06/2018	1.94	38.43	0.00	0.00	40.37
Free float votes	1.94	23.43	0.00	0.00	25.37
31/05/2019	3.72	30.29	0.00	0.00	34.01
Free float votes	3.71	8.91	0.00	0.00	12.62

B.5. State whether any point on the agenda of the General Shareholders' Meetings during the year has not been approved by the shareholders for any reason.

[ ] Yes
[√] No

B.6. State if the Articles of Association contain any restrictions requiring a minimum number of shares to attend General Shareholders' Meetings, or on distance voting:

[√] Yes
[ ] No

Number of shares required to attend General Meetings	400
Number of shares required for distance voting	

B.7. State whether it has been established that certain decisions other than those established by law exist that entail an acquisition, disposal or contribution to another company of essential assets or other similar corporate transactions that must be subject to the approval of the General Shareholders' Meeting.

[ ] Yes
[√] No

B.8. State the address and manner of access to the page on the company website where one may find information on corporate governance and other information regarding General Shareholders' Meetings that must be made available to shareholders through the company website.

www.durofelguera.com

The website includes an "Investor Area". The pull-down menu includes the section "Corporate Governance", on the corporate governance of the company. The section provides details to shareholders on how to attend general meetings, and corporate governance reports for recent financial years.

C. COMPANY ADMINISTRATIVE STRUCTURE

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors established in the Articles of Association and the number set by the general meeting:

Maximum number of directors	12
Minimum number of directors	6
Number of directors set by the general meeting	8

C.1.2 Please complete the following table on directors:

Name of director	Representative	Director category	Position on the Board	Date first appointed	Last re-election date	Election procedure
JOSÉ MARÍA ORIHUELA UZAL		Executive	CHIEF EXECUTIVE OFFICER	30/11/2018	30/11/2018	CO-OPTION
RICARDO DE GUINDOS LATORRE		Independent	DIRECTOR	29/03/2018	15/06/2018	GENERAL MEETING RESOLUTION
IGNACIO SORIA VIDAL		Independent	DIRECTOR	29/03/2018	15/06/2018	GENERAL MEETING RESOLUTION
ACACIO FAUSTINO RODRIGUEZ GARCIA		Other external	CHAIRMAN	23/06/2011	22/06/2017	GENERAL MEETING RESOLUTION
JOSÉ JULIÁN MASSA GUTIÉRREZ DEL ÁLAMO		Independent	DIRECTOR	30/09/2019	30/09/2019	CO-OPTION
ROSA ISABEL AZA CONEJO		Independent	DIRECTOR	30/09/2019	30/09/2019	CO-OPTION

Total number of directors	6

State if any directors, whether through resignation, dismissal or any other reason, have left the Board during the period subject to this report:

Name of director	Category of director at the time of departure	Last re-election date	Date director left	Committees of which he/she was a member	Indicate whether the director left before the end of the term
MARTA ELORZA TRUEBA	Independent	30/08/2018	17/09/2019	Audit Committee	YES
LORETO ORDÓÑEZ SOLÍS	Independent	29/11/2018	30/09/2019		YES
JUAN MIGUEL SUCUNZA NICASIO	Independent	23/07/2018	30/09/2019	Audit Committee and Nomination and Remuneration Committee	YES
ALEJANDRO LEGARDA ZARAGÜETA	Independent	23/07/2018	17/09/2019	Audit Committee and Nomination and Remuneration Committee	YES

Reason for leaving and other remarks

Rosa Isabel Aza Conejo was co-opted to replace Marta Elorza Trueba.

José Julián Massa Gutiérrez del Álamo was co-opted to replace Alejandro Legarda Zaragüeta.

Both appointments are pending ratification by the shareholders at a General Meeting.

The reasons given by the Directors at the time they tendered their resignation are indicated below:

1. Marta Elorza Trueba indicated that other professional duties prevented her from continuing on the Board as they entailed a degree of dedication that was incompatible with her position as a Director of the Company.
2. Alejandro Legarda Zaragüeta said he had resigned because of differences with the CEO. He stated that these differences were shared by other Directors, and that he himself was especially affected by the issue in his capacity as Lead Director.
3. Loreto Ordóñez Solis explained that business and personal reasons led to her decision: the dedication required by the Company at that time was incompatible with her duties elsewhere.
4. Juan Miguel Sucunza Nicasio said he was unable to perform the duties of his office due to duties elsewhere. He was unable to provide the exceptional dedication and care that Duro Felguera required at that specific stage.

From year-end 2019 to the date of this report, Jordi Sevilla Segura and Valeriano Gómez Sánchez were appointed as Independent Directors.

C.1.3 Complete the following tables regarding the members of the Board and their categories:

EXECUTIVE DIRECTORS		
Name of director	Post in organisational chart of the company	Profile
JOSÉ MARÍA ORIHUELA UZAL	CHIEF EXECUTIVE OFFICER	Ingeniero de Caminos, Canales y Puertos [equiv. MSc Civil Engineering]. He has more than 25 years of experience in the engineering and infrastructure sector, where he has held the position of chairman or CEO at several companies.

Total number of executive directors	1
Percentage of Board	16.67

He was appointed as CEO on 30 November 2018, replacing Acacio Faustino Rodríguez Garcia, who became Chairman of the Board without executive powers and outside management.

EXTERNAL PROPRIETARY DIRECTORS		
Name of director	Name or company name of significant shareholder represented or that has proposed their appointment	Profile
No data.		

INDEPENDENT DIRECTORS	
Name of director	Profile
RICARDO DE GUINDOS LATORRE	An economist and auditor, and a professor on leave from the Universidad Complutense de Madrid and the School of Public Finance for training central government tax inspectors. He is a former government financial and tax inspector and has held senior positions in that capacity. He is currently the leading partner at a law practice, a professor of Tax Inspection Procedure for the master's degree course in taxation at the Universidad C.E.U. San Pablo and the Universidad Francisco de Vitoria, and an independent director at EUROPAC.
IGNACIO SORIA VIDAL	An Industrial Engineering graduate, he holds a Master of Business Administration degree from Case Western Reserve University, Cleveland, USA. He has held senior positions at Citibank, Banco Vizcaya, General de Mediación y Bolsa and SVB. He was director of Capital Markets at Swiss Bank Corporation in London and Madrid, deputy general manager and head of Corporate Banking at Caja Madrid and head of Corporate Banking at Bankia. He has also held directorships at Mapfre Global Risks, Mapfre España, Bankia Banca Privada, Mecalux, Mapfre Seguros de empresa and Tavex, where he remains a director.
ROSA ISABEL AZA CONEJO	After graduating in Economics and Business Studies at the University of Santiago de Compostela she taught at the School of Commerce in Gijón. From 1976 to 2000 she was a professor in the Department of Economics at the University of Oviedo, teaching at the School of Business Studies and the School of Industrial Engineering. From 1998 to 2004 she was the Director of the University School of Business Studies of Gijón at the University of Oviedo. During this period she was also the Director of the Master's degree course in Transport and Logistics Management and of the Higher Degree in Tourism at the University of Oviedo. From 2000 to 2010 she combined university teaching with directorships and board roles: - Member of the Board of Directors of the Caja de Ahorros de Asturias - Member of the Board of Directors of SADEI (Sociedad Asturiana de Estudios Económicos e Industriales) - Member of the Board of Directors of TELECABLE. - Member of the Board of Directors of Consorcio de la Feria Internacional de Muestras de Asturias. - Chairman of the Control Committee of Caja de Ahorros de Asturias. - Chairman of the Board of Directors of AUCALSA (Astur-Leones motorway concessionaire). – Chairman of the Board of Directors of VIASTUR (Autopista Concesionaria Principado de Asturias). From 2010 to 2016 she held the position of President of the National Commission of the Postal Sector and of the Port Authority of Gijón. In 2016 she returned to the University of Oviedo, undertaking teaching activities and speaking at Master's degree courses and conferences at several universities. She is currently a member of the Development Advisory Board of the Ministry of Development. Her extensive research work focuses mainly on the economic analysis of tourism, transport and related infrastructure, and she is the author of academic papers and books in these fields.

JOSÉ JULIÁN MASSA GUTIÉRREZ DEL ÁLAMO	State Economist, graduating in first position in his class. Doctor of Economics, Master of International Economics and graduate of Economics and Business Studies from the University of Deusto. He has dedicated his career to the financial markets, creating the Spanish futures and options market and developing the IBEX 35 index. He is the former CEO of MEFF and chairman of Iberclear. He has extensive experience as a director of various companies, including Hunosa. Repsol Exploration, MexDer, AIAF, ECofex, Enusa, Bandesco and RegisTR. He combines his professional activity with teaching at the CUNEF business and finance school.

Total number of independent directors	4
Percentage of Board	66.67

State whether any independent director receives from the company or any company in the group any amount or benefit other than compensation as a director, or has or has had a business relationship with the company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director or senior executive of a company that has or has had such a relationship.

In this case, include a statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director.

Name of director	Description of the relationship	Statement of the Board
No data		

Not applicable.

OTHER EXTERNAL DIRECTORS			
Identify the other external directors and state the reasons why these directors are considered neither proprietary nor independent, and detail their ties with the company or its management or shareholders:			
Name of director	Reason	Company, director or shareholder to whom the director is related	Profile
ACACIO FAUSTINO RODRIGUEZ GARCIA	In accordance with the *Ley de Sociedades de Capital* [Spanish Companies Act], article 529 *duodecies* (4) (a), a former executive director of a group company cannot qualify as an independent director until five years have elapsed since the cessation of that relationship. Since the cessation took place in November 2018, the statutory period for his qualifying as an independent has not yet elapsed.	DURO FELGUERA, S.A.	Mr Rodríguez holds a degree in Industrial and Chemical Engineering from the Universidad de León, and an MBA from Instituto de Empresa. He is a member of the Advisory Board of the University of Mississipi in Europe and of the American Management Association. Mr Rodríguez is General Manager-Founder of Unilog Consultores Industriales, which provides consulting on strategy, operations and benchmarking for the steel, metal, energy, industrial, renewable energy and industrial parts industries for institutions, owners and investors from different countries. As industrial consultant for the European Union, he has participated in negotiations between the EU and Slovenia, Russia, Romania, Bulgaria and other countries. He was CEO of CSI Siderúrgica and Aceralia, also holding the posts of Head of the Competitiveness and Restructuring Plan at these companies, and CEO of Ensidesa, Altos Hornos del Mediterráneo and AHV Altos Hornos de Vizcaya, overseeing their mergers and stock market flotation. He is a former CEO of Pegaso and Seddon Atkinson Ltd (UK), where he helped lead the restructuring and industrial modernisation of the automotive group, which has plants in several countries and operates in the industrial vehicle, passenger transport and military vehicle business lines. He is also ex-Director General of Fujitsu España and Financial Systems Analyst for Ford Europe and Ford France. He is currently a Director of TM&M Ltd (UK). Business Gate

Total number of other external directors	1
Percentage of Board	16.67

State any change in status that has occurred during the period for each director:

Name of director	Date of change	Previous Status	Current status
No data			

C.1.4 Complete the following table with information relating to the number of female directors at the close of the past 4 years, as well as the category of each:

	Number of women directors				% total directors in each category			
	Year 2019	Year 2018	Year 2017	Year 2016	Year 2019	Year 2018	Year 2017	Year 2016
Executive					0.00	0.00	0.00	0.00
Proprietary					0.00	0.00	0.00	0.00
Independent	2	2	1		33.33	33.33	33.00	0.00
Other external					0.00	0.00	0.00	0.00
Total	2	2	1		33.33	25.00	12.50	0.00

In 2019 there were two female independent directors. Both resigned in the second half of September. Two new independent directors were co-opted, one of whom is a woman.
For the purposes of calculation for 2019, two female directors were considered.

C.1.5 State whether the company has diversity policies in relation to the Board of Directors of the company on such questions as age, gender, disability and training and professional experience. Small and medium-sized enterprises, in accordance with the definition set out in the Accounts Audit Act, will have to report at least the policy they have implemented in relation to gender diversity.

[ ] Yes
[√] No
[ ] Partial policies

Should this be the case, describe these diversity policies, their objectives, the measures and way in which they have been applied and their results over the year. Also state the specific measures adopted by the Board of Directors and the appointments and remuneration committee to achieve a balanced and diverse presence of directors.

In the event that the company does not apply a diversity policy, explain the reasons why.

Description of policies, objectives, measures and how they have been implemented, including results achieved

The Company does not operate a diversity policy or any other of the policies mentioned in this rubric because the principle that guides the Company in appointing Directors is the corporate interest. To achieve this purpose, the Company searches for and selects candidates who provide the most suitable professional profile and track record to meet the Company's requirements, regardless of gender, age or ethnicity. The search for directors ensures that they have the training and profile that makes the right fit with the Company's aims. Subsequently, in the case of similar profiles, the candidate of the underrepresented gender is chosen.

Throughout 2019, several changes took place in the membership of the Company's management body: four resignations and two appointments by co-option. The resignations included those of the two independent directors (Marta Elorza Trueba and Loreto Ordóñez Solís). Two new independent directors were co-opted, one of whom is Rosa Isabel Aza Conejo. Two vacancies remained unfilled at 31 December 2019.

C.1.6 Describe the means, if any, agreed upon by the appointments committee to ensure that selection procedures do not contain hidden biases which impede the selection of female directors and that the company deliberately seeks and includes women who meet the target professional profile among potential candidates and which makes it possible to achieve a balance between men and women:

Explanation of measures

There are no selection procedures that are a barrier or could be a barrier to the selection of women directors. When seeking a certain professional profile, the Company takes this into consideration and only evaluates the profile that is most adequate to the corporate interests, without taking into account the gender of the candidate.

The Company's Corporate Governance Policy provides that the Company should ensure that the procedures for selecting members favour a diversity of gender, experience and knowledge and have no implicit bias whatsoever and that, in particular, they favour the selection of women directors. Accordingly, the Nomination and Remuneration Committee's policy, in line with the doctrine enshrined in High Jurisprudence regarding "positive discrimination", states that in the search for candidates that best adapt to the corporate interest, the profile that contributes most professionally to the Company shall be considered. However, where two profiles are objectively similar, priority will be given to the least represented gender.

In the event that there are few or no female directors in spite of any measures adopted, please explain the reasons that justify such a situation:

Explanation of means

The procedures for selecting directors do not have any implicit bias against women candidates, as professional profiles are chosen in accordance with needs of the Company.

C.1.7 Describe the conclusions of the appointments committee regarding verification of compliance with the selection policy for directors; in particular, as it relates to the goal of ensuring that the number of female directors represents at least 30% of the total membership of the Board of Directors by the year 2020.

Throughout 2019, several changes took place in the membership of the Company's management body: four resignations and two appointments by co-option. The resignations included those of the two independent directors (Marta Elorza Trueba and Loreto Ordóñez Solís). Two new independent directors were co-opted, one of whom is Rosa Isabel Aza Conejo. Two vacancies remained unfilled at 31 December 2019.

The Nomination and Remuneration Committee will re-evaluate its selection policy to continue increasing the number of women Directors on the Board with the objective of achieving compliance with the recommendation in 2020.

C.1.8 If applicable, please explain the reasons for the appointment of any proprietary directors at the request of shareholders with less than a 3% equity interest:

Name of shareholder	Reason
No data	

State whether the Board has failed to meet any formal requests for membership from shareholders whose equity interest is equal to or higher than that of others at whose request proprietary directors have been appointed. If this is the case, please explain why the aforementioned requests were not met:

[ ] Yes
[√] No

C.I.9 State the powers delegated by the Board of Directors, as the case may be, to directors or Board committees:

Name of director or committee	Brief description
JOSÉ MARÍA ORIHUELA UZAL	The Board of Directors has delegated to the Chief Executive Officer all powers that are delegable under the law and the Bylaws.

C.1.10 Identify any members of the Board who are also directors or officers in other companies in the group of which the listed company is a member:

Name of director	Name of company group member	Position	Does the director have executive powers?
No data			

C.1.11 List any directors or legal-person directors of your company who are members of the Board of Directors or representatives of legal-person directors of other companies listed on official securities markets other than group companies, and have communicated that status to the Company:

Name of director	Name of listed company	Position
RICARDO DE GUINDOS LATORRE	EUROPAC	DIRECTOR

C.1.12 State whether the company has established rules on the number of boards on which its directors may hold seats, providing details if applicable, identifying, where appropriate, where this is regulated:

[√] Yes
[ ] No

Explanation of the rules and identification of the document where this is regulated

Under article 7.6. of the Regulations of the Board, a director may not serve on the boards of more than five companies listed on domestic or foreign markets.

C.1.13 State total remuneration received by the Board of Directors:

Board remuneration in financial year (thousand euros)	925
Amount of vested pension interests for current members (thousand euros)	
Amount of vested pension interests for former members (thousand euros)	

C.1.14 Identify senior management staff who are not executive directors and their total remuneration accrued during the year:

Name	Position
JAVIER GARCÍA LAZA	Deputy Director to Chief Executive Officer
ALFONSO GORDON GARCÍA-SALCEDO	Head of Human Resources and Organisation
MARÍA CAMINO SÁNCHEZ RODRÍGUEZ	Head of Research and Bidding
CRISTINA QUÍLEZ SARDÁ	Head of Legal Advisory for Business
ÁNGEL LUIS PÉREZ GONZÁLEZ	Head of Corporate Production
JOSÉ OLASO AYESTA	Head of the Technical Corporate Office
GONZALO FERNÁNDEZ-ORDÓÑEZ CERVERA	Head of the Economic-Financial Department
SECUNDINO FELGUEROSO FUENTES	Head of Legal Affairs
JUAN JOSÉ HERRERO RODRÍGUEZ	Head of Corporate Production
MIGUEL ÁNGEL PEÑA PENILLA	Head of Corporate Marketing and Sales
JOSÉ CARLOS CUEVAS DE MIGUEL	Head of the Economic-Financial Department
Total senior management remuneration (thousand euros)	1,379

All the executives who formed part of the Management Committee during 2019 are within the scope of the disclosure, even though some of them have ceased to be considered senior executives.

Total senior management remuneration is the total received by all senior management members, including those who have ceased to be senior management staff. In the latter case, remuneration for senior managers who stepped down during the period is calculated pro rata their time within the period as senior managers.

Securdino Felgueroso Fuentes - Head of Legal Affairs Up to 30/06/2019
Juan losé Herrero Rodríguez - Head of Corporate Production Up to 31/07/2019
Miguel Ángel Pena Penilla - Head of Corporate Marketing and Sales Up to 03/09/2019
José Carlos Cuevas de Miguel - Head of Finance Up to 11/03/2019.

C.1.15 State whether the Board rules were amended during the year:

[√] Yes
[ ] No

Description of amendments

The changes relate to the powers of the Audit, Risk and Compliance Committee and the Nomination and Remuneration Committee. See section H.

C.1.16 Specify the procedures for selection, appointment, re-election and removal of directors: the competent bodies, steps to follow and criteria applied in each procedure.

In 2015, the Board of Directors approved a “Director Nomination and Selection Policy” which, in general, establishes a subjective scope of application for natural person directors and, in the case of legal person candidates, the natural persons that will represent them.

The process and the procedure is summarised as follows: The Company’s Nomination and Remuneration Committee proposes the nomination or re-election of independent directors, while the Board of Directors is responsible for nominating or re-electing proprietary, executive and other external directors. Within the framework of the process of selecting prospective candidates for seats on the Board of Directors, and notwithstanding the competencies of the General Meeting, the Nomination and Remuneration Committee will have the following authorities:

- Evaluate the competencies, knowledge and experience necessary for the Board of Directors. To this end, the Committee shall define the duties and capabilities necessary in candidates who shall fill each vacancy and evaluate the time and dedication necessary in order to efficiently fulfil their commitment.
- Submit to the Board of Directors, proposals for the appointment of independent directors for their nomination through co-option or for their submission to the General Meeting's decision, in addition to proposals for the re-election or dismissal of said directors by the General Meeting.
- Report on any proposals for appointment of all other directors for their appointment by co-option by the Board or for their submission to the General Meeting's decision, in addition to proposals for the re-election or dismissal of such directors by the General Meeting.
- Set a target for representation for the underrepresented gender on the Board, in accordance with the most authoritative case-law on so-called "Positive Discrimination", and draw up guidelines on how to achieve this objective.

C.1.17 Explain how the annual evaluation of the Board has given rise to significant changes in its internal organisation and to procedures applicable to its activities:

Description of amendments

The annual evaluation is not expected to give rise to any changes.

Describe the evaluation process and the areas evaluated by the Board of Directors with the help, if any, of external advisors, regarding the function and composition of the board and its committees and any other area or aspect that has been evaluated.

Description of the evaluation process and evaluated areas

The evaluation process is based on the recommendations of the CNMV in Technical Guide 1/2019, Nomination and Remuneration Committee (*Guia Técnica 1/2019 Comisión de Nombramientos y Remuneraciones*).

For the 2019 evaluation, we shall hold at least two individual sessions with each director involving in-depth analysis of strengths and areas for improvement, among other assessment steps, to enable us to judge his or her contribution of value to the Board and the Company.
The following criteria, among others, apply:
- Contribution of knowledge, decision-making skills and experience.
- Fit and complementarity with other Directors.
- Knowledge about the company, its business performance, the industry and the political, economic and social settings.
- Integrity: Trustworthiness and ability to create confidence among shareholders.
- Maturity, ethical attitude, responsibility and discretion.
- Own judgement and ability to argue effectively in a constructive debate.
- Dedication: Availability of time and dedication as required to carry out duties and responsibilities.
- Awareness of and appropriate response to the potential civil, criminal and tax liabilities attaching to a Board role.
- Spirit of cooperation and teamwork, empathy and results-oriented attitude.
- Independence: No professional, business or family ties to the company, its majority or significant shareholders or company subsidiaries. Potential conflicts of interest.

Individual working sessions are supported by a self-assessment questionnaire to be completed by each project participant. In this questionnaire he or she states views on the governing bodies.

C.1.18 Describe, in those years in which the external advisor has participated, the business relationships that the external advisor or any group company maintains with the company or any company in its group.

In 2019 the annual evaluation of the Board was assisted by an external consultant with whom we have in place a contract for specific executive search and selection services.

C.1.19 State the situations in which directors are required to resign.

Directors must tender their resignations in the circumstances provided for by law. They must also tender their resignation from the Board and, as appropriate, resign in accordance with article 24.2 of the Board Regulations in the following situations:

a) When due to circumstances they come under one of the grounds for disqualification or prohibition established in law, the Bylaws or these Regulations.

b) When they lose credibility, suitability, solvency, competency, availability or commitment to the duties necessary to be a Director of the Company.

c) When their presence on the Board may jeopardise for any reason, and directly, indirectly or through their affiliates, the loyal and diligent discharge of their duties in accordance with the corporate interest.

d) When the reasons for which they were appointed cease to exist and, in particular, when the shareholder or shareholders that proposed, required or determined their appointment, dispose, in part or in full, of their shareholding, resulting in the loss of their status as a qualifying or sufficient shareholder to justify the appointment.

e) When an independent director comes under any of the impediments provided in Article 8.1.c) of the Board of Directors' Regulations.

f) When circumstances arise that could harm the Company's name and reputation, in particular when directors are investigated for any crime, they must resign if the Board, after a report from the Nomination and Remuneration Committee, deems it appropriate. Similarly, if, once the investigation has been completed, an oral trial is ordered to commence, the Director must again place his or her position at the disposal of the Board and resign if the Board, following a report by the Nomination and Remuneration Committee, deems it appropriate.

C.1.20 Are qualified majorities other than those established by law required for any specific decision?

[ ] Yes
[√] No

If so, please describe any differences.

C.1.21 Explain whether there are any specific requirements, other than those relating to directors, to be appointed as chairman of the Board of Directors.

[ ] Yes
[√] No

C.1.22 State whether the Articles of Association or the Board Rules establish any limit as to the age of directors:

[ ] Yes
[√] No

C.1.23 State whether the Articles of Association or the Board Rules establish any term limits for independent directors other than those required by law:

[ ] Yes
[√] No

C.1.24 State whether the Articles of Association or Board Rules establish specific proxy rules for votes at Board meetings, how they are to be delegated and, in particular, the maximum number of delegations that a director may have, as well as if any limit regarding the category of director to whom votes may be delegated and whether a director is required to delegate to a director of the same category. If so, please briefly describe the rules.

No.

C.1.25 State the number of meetings held by the Board of Directors during the year, and if applicable, the number of times the Board met without the chairman present. Meetings where the chairman sent specific proxy instructions are to be counted as attended.

Number of Board meetings	28
Number of Board meetings without the chairman	0

State the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

Number of meetings	0

Please specify the number of meetings held by each committee of the Board during the year:

Number of meetings held by the Audit Committee	19
Number of Meetings held by the Appointments and Remuneration Committee	11

C.1.26 State the number of meetings held by the Board of Directors during the year in which all of its directors were present.

Number of meetings attended in person by at least 80% of directors	28
% of attendance in person over total votes during the year	99.00
Number of meetings attended in person, or by proxy but with specific directions, by all directors	28
% of votes cast by members attending in person, or by proxy but having given specific directions, out of all votes cast during the year	99.00

C.1.27 State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

[ ] Yes
[√] No

Identify, if applicable, the person/s who certified the individual and consolidated financial statements of the company for preparation by the Board:

C.1.28 Explain any measures established by the Board of Directors to prevent the individual and consolidated financial statements prepared by the Board from being submitted to the General Shareholders' Meeting with a qualified audit opinion.

The Audit Committee's duties include analysing any incidents, and ensuring that the financial statements present fairly the Company and its subsidiaries (consolidated). The Chairman of the Audit Committee reports all resolutions and decisions to the Board of Directors, which is the ultimate decision-making body. Throughout the year, the Audit Committee and the Director of Internal Audit hold regular meetings with the auditors to assist them in acquiring a better understanding. In 2019, the Management Control Department and the Project Risk Control Department were set up and began operating. The latter reports to the Audit, Risk and Compliance Committee. In addition, the company has undertaken initiatives to improve ICFR.

C.1.29 Is the secretary of the Board also a director?

[ ] Yes
[√] No

If the secretary is not a director, please complete the following table:

Name of Secretary	Representative
SECUNDINO FELGUEROSO FUENTES	

C.1.30 State, if any, the concrete measures established by the entity to ensure the independence of its external auditors, financial analysts, investment banks, and rating agencies, including how legal provisions have been implemented in practice.

The Audit Committee requests written confirmation each year from the auditors of their independence as regards the entity or directly or indirectly related entities, and information on additional services of any kind provided to these entities by the aforesaid auditors, as provided for in Audit Act 22/2015, of 20 July. To exercise better control over auditor independence, any engagement, other than the statutory audit, requested of the auditors requires approval by the Audit Committee.

C.1.31 State whether the company changed its external auditor during the year. If so, please identify the incoming and outgoing auditor:

[ ] Yes
[√] No

If there were any disagreements with the outgoing auditor, please provide an explanation:

[ ] Yes
[√] No

C.1.32 State whether the audit firm provides any non-audit services to the company and/or its Group and, if so, the fees paid and the corresponding percentage of total fees invoiced to the company and/or Group:

[√] Yes
[ ] No

	Company	Group companies	Total
Amount invoiced for non-audit services (thousand euros)	198	0	198
Amount invoiced for non-audit services/Amount for audit work (in %)	29.77	0.00	29.77

C.1.33 State whether the auditors' report on the financial statements for the preceding year contains a qualified opinion or reservations. If so, please explain the reasons given by the chairman of the audit committee to explain the content and extent of the aforementioned qualified opinion or reservations.

[ ] Yes
[√] No

C.1.34 State the number of consecutive years the current audit firm has been auditing the financial statements of the company and/or group. Furthermore, state the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:

	Separate	Consolidated
Number of consecutive years	4	4

	Separate	Consolidated
Number of years audited by the current audit firm/Number of years that the company or its group has been audited (in %)	12.90	12.90

C.1.35 State whether there is a procedure whereby directors have the information necessary to prepare the meetings of the governing bodies with sufficient time and provide details if applicable:

[√] Yes
[ ] No

Explanation of procedure

During its last meeting of the year, the Board of Directors approves a meeting schedule for the following year and establishes the monthly meeting dates.

Before each monthly Board meeting, and at least four days in advance, each director is provided with financial information on the Company, including the parent company and all subsidiaries (consolidated) as at the end of the immediately preceding month, together with detailed information regarding each agenda item and the proposals to be submitted under each. The monthly information includes at least the following: The consolidated and separate income statements, with comparative data for the year before and the budget; contracting data and a comparison with the budget; cash report and projections, with a detail of net cash; information regarding the number of employees, changes, distribution by area, etc.; events and incidents that may have an impact on the results of the Company and the Group, and a report on any other matters related to agenda items for which a decision must be taken.

C.1.36 State whether the company has established rules whereby directors must provide information regarding and, if applicable, resign, in circumstances that may damage the company's standing and reputation. If so, provide details:

[√] Yes
[ ] No

Explain the rules

Directors must tender their resignations in the circumstances provided for by law. They must also offer to resign, and, as the case may be, formalise such resignation, when circumstances arise that could harm the Company's name and reputation, in particular when directors are investigated for any crime, they must resign if the Board, after a report from the Nomination and Remuneration Committee, deems it appropriate. Similarly, if, once the investigation has been completed, an oral trial is ordered to commence, the Director must again place his or her position at the disposal of the Board and resign if the Board, following a report by the Nomination and Remuneration Committee, deems it appropriate.

C.1.37 State whether any member of the Board of Directors has notified the company that he or she has been tried or notified that legal proceedings have been filed against him or her, for any offences described in Article 213 of the LSC:

[ ] Yes
[√] No

C.1.38 Detail any material agreements entered into by the company that come into force, are modified or are terminated in the event of a change in control of the company following a public takeover bid, and their effects.

Not applicable.

C.1.39 Identify individually for a director, and generally in other cases, and provide detail of any agreements made between the company and its directors, executives or employees containing indemnity or golden parachute clauses in the event of resignation or dismissal or termination of employment without cause following a takeover bid or any other type of transaction.

Number of beneficiaries	4
Type of beneficiary	Description of agreement
Chief Executive Officer and Senior Management	The agreement with the Chief Executive Officer contains an indemnity clause in the event of unilateral termination without cause of the Contract for an amount of one year's fixed salary. The indemnities under the Senior Management Contracts are as follows: (i) One year's gross annual salary in case of termination before completion of five years of employment. (ii) Additional guarantee in the event of contract termination in respect of pending salaries up until 31 December 2020. (iii) Additional guarantee in the event of contract termination in respect of pending salaries up until the end of the first year of the contract (10 September 2020).

State if, beyond statutory requirements, these contracts have been communicated to and/or approved by management bodies of the company or of the Group. If they have, specify the procedures, events and nature of the bodies responsible for their approval or for communicating this: Board of Directors

	Board of Directors	General Meeting
Body authorising the severance clauses	√	

	Yes	No
Are these clauses notified to the General Shareholders' Meeting?		√

C.2. Committees of the Board of Directors

C.2.1 Provide details of all committees of the Board of Directors, their membership, and the proportion of executive, proprietary, independent and other external directors that comprise them:

Audit, Risk and Compliance Committee		
Name	Position	Category
RICARDO DE GUINDOS LATORRE	CHAIRMAN	Independent
IGNACIO SORIA VIDAL	MEMBER	Independent
JOSÉ JULIÁN MASSA GUTIÉRREZ DEL ÁLAMO	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% other external directors	0.00

In 2019, due to the resignations in September of four directors, three of whom comprised the entirety of the Audit Committee (Ms Elorza, Mr Legarda and Mr Sucunza), new members were appointed, as listed above.

Marta Elorza Trueba was Chair of the Audit Committee until 17 September 2019, when she resigned. On 30 September 2019, the Board of Directors resolved to appoint the independent director Ricardo de Guindos Latorre as member and Chairman of the Audit Committee based on his proven professional experience in auditing and accounting matters.

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

The Audit Committee is regulated by the provisions of the Ley de Sociedades de Capital (Corporate Enterprises Act), the Internal Regulations of the Board of Directors and the Regulations of the Audit Committee, the latest amendment of which was approved by the Board of Directors on 21 June 2019.

On 21 June 2019, the Board of Directors agreed to amend the Regulations of the Board of Directors and to approve a separate set of regulations for both the Nomination and Remuneration Committee and the Audit Committee, the latter to be renamed the Audit, Risk and Compliance Committee. This decision was based on a report issued by the Nomination and Remuneration Committee and followed the CNMV's practical guidance for Audit Committees and Nomination and Remuneration Committees.

Its members, particularly the Chairman, are appointed with regard to their knowledge and experience in accounting, auditing, or risk management matters.

The members of the Audit Committee resign voluntarily if not re-elected to the position of director or when so decided by the Board of Directors. In accordance with the Internal Regulations of the Board of Directors, the Chairman of the Audit Committee shall be appointed by the Board of Directors from among independent Directors. The Chairman must be replaced every four (4) years and may be re-elected after one (1) year has elapsed since removal.

The Audit Committee meets whenever called by the Chairman or requested by two of its members and, in any event, at least four times per year, within fifteen days following the end of each calendar quarter. One of the meetings is called to debate all matters that must be submitted to the Annual General Meeting, regarding both the appointment of the external auditor and the evaluation of the information that the Board of Directors must approve and include in its annual public documentation, including the Audit Report.

Continued in section H.

Identify the directors who are member of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairperson of this committee was appointed.

Name of directors with experience	RICARDO DE GUINDOS LATORRE
Date of appointment of the Chairman	30/09/2019

Nomination and Remuneration Committee		
Name	Position	Category
IGNACIO SORIA VIDAL	CHAIRMAN	Independent
RICARDO DE GUINDOS LATORRE	MEMBER	Independent
ROSA ISABEL AZA CONEJO	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% other external directors	0.00

Until 30 September 2019 the Committee comprised Juan Migue! Sucunza Nicasio, Chairman, and by Alejandro Legarda Zaragüeta and Ignacio Soria Vidal, members, all of whom were independent directors. After the resignation in September 2019 of Mr Legarda and Mr Sucunza, new members were appointed among the independent directors. The Commitee was then formed by Ignacio Soria Vidal, Chairman, and Rosa Isabel Aza Conejo and Ricardo de Guindos Latorre.

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

The Nomination and Remuneration Committee (“the Committee”) is regulated by the provisions of the Corporate Enterprises Act, the Bylaws and the Internal Regulations of the Board of Directors, the latest amendment of which was approved by the Board of Directors on 21 June 2019, and by the Committee’s own Regulations.

The Nomination and Remuneration Committee does not have executive duties, but has authority to inform, advise and make proposals within its area of competency. It is formed by a minimum of three (3) and a maximum of five (5) non-executive directors, with a majority of independent directors.

Currently, the Committee comprises three members, based on a report issued by the Nomination and Remuneration Committee, to adapt the number of members of the Committee to the current size of the Board of Directors. All Committee members are independent directors.

Continued in section H.

C.2.2 Complete the following table with information regarding the number of female directors who were members of Board committees at the close of the past four years:

	Number of female directors							
	Year 2019		Year 2018		Year 2017		Year 2016	
	Number	%	Number	%	Number	%	Number	%
Audit Committee	0	0.00	1	33.30	1	25.00	0	0.00
Nomination and Remuneration Committee	1	33.33	0	0.00	1	33.33	0	0.00

Until 30 September 2019, there was a woman director sitting on the Audit Committee. There were no women directors on the Nomination and Remuneration Committee in 2019.

C.2.3 State, where applicable, the existence of any regulations governing Board committees, where these regulations may be found, and any amendments made to them during the year. Also state whether any annual reports on the activities of each committee have been voluntarily prepared.

Board Committees are regulated by the Bylaws, the Regulations of the Board of Directors, and the Regulations of each Committee. The rules are available on the Company’s website in the Corporate Governance section under the Investors Area. The most relevant duties and actions falling to both committees are also set out in detail in Section H, Appendix I.

Reports on the membership and functioning of each committee were produced in 2019.

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1. Describe, if applicable, the procedure for approval of related-party and intragroup transactions.

The procedure to be followed for transactions with related parties is provided for in the Regulations of the Board of Directors.

D.2. List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Name of significant shareholder	Name of group company	Nature of the relationship	Type of transaction	Amount (thousand euros)
No data				N/A

D.3. List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors:

Name or corporate name of manager of director	Name of related party	Relationship	Type of transaction	Amount (thousand euros)
No data				N/A

D.4. List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any event, note any intragroup transaction conducted with entities established in countries or territories which are considered tax havens:

Name of entity within the group	Brief description of the transaction	Amount (thousand euros)
No data		N/A

D.5. State the amount of any transactions conducted with other related parties that have not been reported in the previous sections.

Company name of the related party	Brief description of the transaction	Amount (thousand euros)
No data		N/A

D.6. Explain the mechanisms established to detect and resolve potential conflicts of interest between the company and/or its group and its directors, managers or significant shareholders.

The Board Regulations establish the mechanisms and procedures in the event of a conflict of interest between the Company, its directors, the natural person representatives of legal person directors, significant shareholders, and managers.

These mechanisms require the aforementioned persons to inform the Board of Directors, via various means, of their interest in competing companies or those with similar corporate purposes, and in the event of a conflict of interest, the affected person may not participate in the Company’s decisions regarding any matters involving the conflict of interest.

Moreover, the Internal Rules of Conduct in Securities Markets and the treatment of confidential and/or privileged information set out the circumstances in which there is a conflict of interest involving employees and managers and determines the procedures to avoid conflicts of interest and a mechanism from resolving conflicts, delegating this power in the Nomination and Remuneration Committee. There is also a principle of abstention by the director, employee or manager in the process for resolving conflicts of interest.

D.7. Is more than one group company listed in Spain?

[ ] Yes
[√] No

E. RISK MANAGEMENT AND CONTROL SYSTEMS

E.1. Explain the scope of the company's Risk Management and Control System, including tax compliance risk.

On 1 January 2019, the Board approved the updated version of the "Risk Control and Management Policy" in which the basic principles and guidelines are established for the control and management of all risks, including tax risks, faced by the Company, based on the identification of the main business risks and taking forward the most suitable internal control and management systems.

As a pillar of the Integral Risk Management System, Duro Felguera has adopted a Risk Control and Management Policy whose objective is to specify the principles for identifying, analysing, evaluating, managing and communicating the risks involved in the strategy and operations of Duro Felguera, thus ensuring a general framework for managing the threats and uncertainties inherent in the business processes and the environment in which the Group operates.

The objectives pursued by the company's Risk Management System are:
- To contribute to the achievement of the Company's strategic objectives.
- To put in place maximum safeguards for the protection of the company's interests and, therefore, the interests of all shareholders and other stakeholders.
- To protect Duro Felguera's reputation.
- To safeguard the business stability and financial soundness of Duro Felguera, sustainably over time.
- To support regulatory compliance.
- To help ensure that operations are conducted to the committed standards of safety and quality.

Therefore, the core principles underpinning risk control and management at DF are:
- To promote a risk management-oriented approach in the framing of strategy and risk appetite, through to incorporation of risk variables in operational decisions.
- To separate and assign responsibilities to the risk-taking areas and areas responsible for risk analysis, control and supervision, and seek to ensure use of the most effective instruments for risk mitigation.
- To report transparently on the Group's risks and operation of the control systems, through approved communication channels.
- To ensure compliance with corporate governance rules and standards and their updates in accordance with the best international practices, acting at all times in accordance with the Company's corporate governance rules.

The scope of application of the Risk Management System embraces all companies, departments, projects and areas of the Duro Felguera Group.

E.2. Identify the bodies within the company responsible for creating and executing the Risk Management and Control System, including tax compliance risk:

The functions and responsibilities of the company's various bodies relating to the Risk Management System are as follows:

Board of Directors
Article 5 "Powers of the Board" of the Regulations of the Board of Directors specifies the non-delegable functions of the Board, including the determination of risk identification, control and management policies, including for tax risks, and the supervision of reporting and control systems.
The "Risk Control and Management Policy" describes the functions of the Board of Directors of DF in this regard, including its responsibility for defining, updating and approving the Risk Control and Management Policy and setting the levels of acceptable risk and risk tolerance at the given time.

Audit Committee
The functions related to the supervision of the internal control and risk management systems, aimed at ensuring that the main risks are identified, managed and maintained at the approved levels, have been delegated to the Audit Committee.

Management Committee
The Management Committee must promote the identification and assessment of risks at all levels of the Company, assign responsibilities for the risks identified, ratify the results of risk assessments in order to determine their criticality and approve actions or responses to risk proposed and executed by the officer for each risk.

Risks Department
The Risks Department was reinforced in December 2018, and it now reports directly to the Audit Committee since January 2019, supporting the Board of Directors and the Management Committee in the fulfilment of their functions, by performing its duties:

- To ensure the proper functioning of the risk management system by providing methodological support to risk officers for risk identification and assessment.
- To standardise and consolidate the reports on risk identification and assessment drawn up by each of the risk officers, in order to submit a regular status report to the Management Committee and the Audit Committee.
- To monitor risk management outcomes through the risk indicators reported by the Management Control area and monitoring of the fulfilment and effectiveness of the action plans executed by risk officers.

Risk Officers
At Duro Felguera, risk management is the responsibility of each business area head, who may delegate to one or more people, depending on the nature and importance of the risk.
As risk officers they must:

- Identify and assess in depth the risks under their area of responsibility
- Propose and report the necessary information for monitoring risks
- Propose and implement action plans for risk mitigation
- Report on the effectiveness of such plans

Internal Audit Department
The Internal Audit Department is responsible for verifying that appropriate systems and processes have been implemented to ensure awareness of the risks faced by the Group and of the regulations applicable to the organisation. The Department therefore conducts a continuous audit of the Risk Management System, which must be provided for in the Annual Audit Plan, scrutinising the operation of the System in terms of its design, implementation and effectiveness.

E.3. State the primary risks, including tax compliance risks, and those deriving from corruption (with the scope of these risks as set out in Royal Decree Law 18/2017), to the extent that these are significant, which may affect the achievement of business objectives:

The Company is subject to a range of risks, inherent in the different lines of business in which it operates, and grouped into 4 categories which are updated regularly (at least annually) or whenever significant events occur that affect the company's activities or the environment and, therefore, may affect assessment of the company's risks.

These categories are as follows:

- Strategic: risks associated with key long-term objectives. They may arise from the actions of other key market participants (customers, competitors, regulators, investors or others), from changes in the competitive environment or from the business model itself. The main risks within this category are those related to the market and the company's project book.
- Operational: risks associated with the normal operations carried out at Duro Felguera, including all risks related to operating procedures and the efficient and effective use of the organisation's resources. In this category, the key risks are those relating to execution and management of the main contracts and to project planning.
- Financial: risks related to the economic-financial management of Duro Felguera and the preparation of financial information. The main risks in this category are those relating to liquidity and exchange rates.
- Compliance: risks of non-compliance with external and internal regulations by the Company's management or employees and, specifically, those relating to compliance with tax requirements and criminal statutes.

E.4. State whether the entity has a risk tolerance level, including tolerance for tax compliance risk.

The Company evaluates its risks on the basis of the following variables:

- Impact, defined as the consequences and effects that the risk would have on the Group if it materialised.
- Probability that the risk will materialise.

For risks with a higher impact and residual probability, the directors set risk tolerance according to the most representative risk indicators. Since December 2018, following the approval of the new Risk Control and Management Policy, the Company has been working on improving the indicators of the key risks, so that the level of risk tolerance and measurement can be more objective.

Likewise, in some cases, the tolerance level set is "zero", as in the case of the main compliance risks, for which the Company has implemented a plan to strengthen the compliance system.

E.5. State which risks, including tax compliance risks, have materialised during the year.

As explained in the consolidated financial statements, the main risks that materialised in 2019 related to financing capacity, obtaining bank guarantees, and deviations in the performance of certain contracts.

E.6. Explain the response and monitoring plans for all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the board of directors responds to any new challenges that arise.

In response to the main risks, various actions have been taken that are mitigating the impact of the materialised risks and that help monitor risks that are considered to have the greatest impact and probability.
These actions are as follows:
- In 2019, we cemented the changes begun in 2018 in the organisational structure, including the appointment of a Chief Executive Officer, the creation of new divisions and the assignment of responsibilities in order to have a streamlined and nimble organisation.
- The liquidity monitoring procedure has been strengthened to improve financial management.
- We created a Management Control Department to reinforce monitor project progress and controls over financial and management reporting.

F. INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms comprising the System of Internal Control over Financial Reporting (ICFR) of your company.

F.1. Control environment

Report on at least the following, describing their principal features:

F.1.1 The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The Duro Felguera (DF) Group's System of Internal Control over Financial Reporting comprises a set of controls designed to provide reasonable assurance regarding the reliability of financial information that is publicly reported in compliance with the transparency requirements of today's securities markets.
The Economic-Financial Division of DF is responsible for establishing the design, implementation and overall monitoring of the Group's system of internal control over financial reporting.
The Division must therefore establish the system and have the necessary structure for oversight to ensure that it functions effectively.
The ICFR model implemented at DF establishes a range of functions and responsibilities whereby the Audit Committee, in its role of supervising the preparation and reporting of regulated financial information and the effectiveness of the company's internal control, as described in the Regulations of the Board of Directors (Article 17), is responsible for seeing to:

- Suitable delimitation of the scope of consolidation.
- Correct application of accounting principles.
- Effective implementation of control policies and procedures.
- The process of preparation and the integrity of the financial information, checking that ICFR is properly designed and operationally effective, and that regulatory requirements are complied with.
- Discussion with the auditors on the significant weaknesses of the internal control system uncovered during the audit, without compromising the auditor's independence, and leading to conclusions on the soundness and reliability of the system.

Finally, the Internal Audit area, which reports to and is under the oversight of the Audit Committee, will plan the supervision and assessment of the ICFR with a suitable scope and schedule in order to arrive at findings on its effectiveness, and that audit engagement will form part of its Annual Audit Plan.

F.1.2. State whether the following are present, especially if they relate to the creation of financial information:

- Departments and/or mechanisms in charge of: (i) design and review of corporate structure; (ii) clear definition of lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication throughout the entity.

Under the Regulations of the Board of Directors, the specification of the Group's organisational structure and any changes to it are the responsibility of the Board.

In 2019, we created the Organisation and Processes Department, which reports to the Media and Talent Management Department. The new unit is tasked with designing an organisational structure aligned with strategic plans, specifying the functions and duties of each key position in the Group and shaping workflows and relations among the functional areas to optimise coordination and resource allocation to achieve the Company's goals.

The Department's responsibilities are to:

- Specify standard organisational structures that support optimal coordination of resources and activities.
- Specify the functions and duties of each position within the organisation to adapt them to the organisational model.
- Advise the Department heads on the implementation of the organisational models adopted by the Group.
- Create and implement a normative body of policies, standards, process maps and workflows in line with the requirements of the Group and its governing bodies.
- Create a global knowledge management model that enables the dynamic flow of information throughout the organisation.

- Draw a map of competencies and create a model of relations between positions within corporate structures, and of these among themselves.
- Implement and define the strategic resource planning model with each area.
- Ensure that best practices and experiences are shared and transferred to the entire Group in coordination with the training department.
- Develop and dynamically update the Group's organisational manual in relation to structures, positions, functions, dependency relationships and a matrix of responsibilities, ensuring dissemination throughout the company.
- Review and centralise the classification and registration of new positions and/or organisational areas in DF.
- Create and manage the DF Group's organisational manual and its contents (organisation charts, organisational manual, responsibility matrix, organisational dashboard).

In short, the Economic-Financial Division leads the preparation of financial reporting, although, as stipulated in DF's model for ICFR, all parties involved must work towards the transparency, integrity, accuracy and reliability of financial reporting. As to ICFR, responsibilities are ascribed by the internally developed ICFR governance model approved by the Board. A specific area was created for its implementation \ management that reports hierarchically and functionally to the Economic-Financial Division itself.

Code of conduct, the body approving this, degree of dissemination and instruction, including principles and values, (state if there is specific mention of transaction recording and creation of financial information), a body charged with analysing breaches and proposing corrective actions and sanctions.

Compliance Policy

In 2019, the Board of Directors approved the Compliance Policy. Its priorities include the development of a robust compliance culture in which the ethical values of the Company are at the core of its business and its decision-making.

The goal is to express, through the will of Duro Felguera, its Board of Directors and Senior Management, facing third parties with whom the Company enters into commercial relations, the underpinnings of the Duro Felguera Crime Prevention Model and its commitment to establish a compliance culture that fosters diligent professional conduct. We also firmly condemn any form of improper action: no unlawful conduct may be excused on the basis of some benefit for the organisation.

Crime Prevention Manual

Also in 2019, at the proposal of the Audit, Risk and Compliance Committee the Board of Directors approved the Crime Prevention Manual, which establishes the organisational model for the prevention, management and control of criminal risks at Duro Felguera and its subsidiaries. The Manual sets down the guidelines for action at Duro Felguera to exert proper control and vigilance over its business activity, thus complying with the requirements of the Spanish Criminal Code and corporate law, particularly with regard to crime risk prevention.

The goal is to set rules of action and conduct and create controls to prevent criminal offences that may affect Duro Felguera's business. The Manual comprises various elements that enable detailed analysis of the crime risks that could materialise in its divisions, departments and business areas, and compiles existing procedures and controls for effective prevention and mitigation of such risks. General controls are the basis of risk control and mitigate the generic risk of crimes considered to be of special significance. Such controls apply to all employees, managers and directors of the Company. Specific controls are specific measures whose purpose is to mitigate a specific criminal risk or a group of specific criminal risks. These two tiers mean the Criminal Risk Prevention Model is a structured and organic system of effective prevention and control that reduces crime risk at Duro Felguera.

The oversight, monitoring and dissemination of the Manual is the responsibility of the Compliance Committee, which is appointed by the Board of Directors and comprises representatives of the Media and Talent Management, Finance, Legal Affairs, and Compliance departments.

Finally, this oversight system is verified by Internal Audit, which checks whether existing controls are adequate and effective by determining whether or not the defined control environment reasonably mitigates the identified criminal risks. Internal Audit then reports to the Audit, Risk and Compliance Committee so that identified weaknesses can be remedied accordingly.

Due Diligence of third parties

Duro Felguera reinforced its Due Diligence procedures with the approval in 2019 by the Board of Directors, at the proposal of the Audit, Risk and Compliance Committee, of the Third Party Due Diligence standard, which describes the due diligence procedure to be followed before signing agreements with third parties. In the course of Duro Felguera's business, agreements with third parties are an essential asset in achieving the Company's corporate purpose. Consequently, a process of analysis and study is required prior to the commencement of professional or commercial relations, minimising any transfer of liability to the Group as a result of technical, financial or compliance risks.

Code of Conduct
The company's Code of Conduct approved by the Board of Directors in 2018 remained in force throughout 2019.

The company's Code of Conduct is published on the intranet and on the corporate website, and sets out the following principles and values:
- Compliance with the law:
DF and all its employees undertake to comply with the legislation in force in all activities, and with the Good Corporate Governance practices adhered to by DF, while encouraging cooperation with authorities and regulatory bodies.
- Respect for people: This aspect focuses on respect for fundamental rights and civil liberties (work-life balance, equal opportunities and non-discrimination, among others) and health and safety.
- Relations with government authorities and third parties:
DF will not tolerate any action or behaviour that is contrary to the principles of transparency, integrity and equal opportunities in our relations with third parties.
- Commitment to the market:
DF and all its employees must guide their conduct by the highest standards of quality, honesty and transparency.
- Prevention of contraband:
DF is committed to abide by prevailing legislation on import and export.
- Commitment to the environment: DF is committed to promoting and encouraging the protection and conservation of the environment by involving its employees and the Group as a whole in environmental concerns through continuous improvement.
- Protection of information: personnel subject to the Code of Conduct are required to keep strict confidentiality in relation to information obtained in the course of their work.
- Financial and accounting transparency: The Company shall ensure the reliability and rigour of financial information that, in accordance with applicable regulations, is publicly reported to the market. Specifically, the accounting policies, control systems and supervision mechanisms specified by the Group will be applied so that relevant information is identified, prepared and communicated in a timely and appropriate manner. Furthermore, the Board of Directors of DF and the other management bodies of Group companies will regularly verify the effectiveness of the system of internal control over financial reporting to the markets.
- Responsible use of resources and assets: All DF employees are subject to the responsibility and commitment to protect the Group's assets against damage, loss, theft and misuse.
- Use of facilities: The company and its employees must maintain a decent, convenient and safe workplace.
- Protection of third-party intellectual and industrial property rights: Personnel subject to DF's Code of Conduct must at all times respect the intellectual and industrial property of third parties.

Finally, the Compliance Committee, comprising management representatives of the Human Resources, Legal Affairs and Economic-Financial departments, which together with the Compliance Department will be the internal body responsible for updating, supervising and controlling compliance with the principles, values, guidelines and patterns of behaviour set out in this Code, and existing regulations within the framework of the application of the Code of Conduct.

- Whistleblower channel, that allows notifications to the audit committee of irregularities of a financial and accounting nature, in addition to potential breaches of the code of conduct and unlawful activities undertaken in the organisation, reporting, as the case may be, if this is of a confidential nature.

DF has made available to its employees several channels to report incidents and concerns or raise questions:
- The whistleblower's manager, or the Head of Human Resources.
- Ethics Hotline (https://lineaeticadurofelguera.com): This is a channel managed by the Chief Compliance Officer of Duro Felguera under the supervision of the Audit Committee. Accounting or auditing irregularities or breaches of the Code of Conduct or the Group's Crime Prevention Model can be reported via the channel in a fully confidential and independent manner. This channel, accessible from the Duro Feiguera website and intranet, enables stakeholders safely and anonymously to report irregular, unethical or illegal conduct which they believe to have occurred in the course of the Company's business. Duro Felguera assures strict confidentiality in addressing incidents and throughout the process of investigation. Duro Felguera also guarantees that no action will be taken against the whistleblower for incidents reported in good faith.

- Regular training and updating programmes for employees involved in the preparation and review of financial information, and evaluation of ICFR, at least covering accounting standards, auditing, internal control and risk management:

In 2019, the Audit Committee and the Board of Directors promoted training in Risk Management, Compliance Policies and internal control over financial reporting, and training for Internal Audit staff to carry out internal control reviews. Training activities, which took place over practically the whole of 2019, were provided by external experts to employees involved in the preparation and review of financial reporting. Training sessions have been held to disseminate the ICFR system across relevant areas and personnel within the organisation, in person and online for off-site employees.

In general, Duro Felguera carries out training actions in the face of regulatory changes that affect the accounting treatment of the type of transactions entered into by DF. In addition, there is a Consolidation and Reporting department staffed by accountants operating as a special technical unit; for complex transactions, they seek the opinion of external experts. There is also a corporate accounting manual - published on the intranet - that provides for the uniform application of accounting policies and standards.

F.2. Assessment of financial reporting risks

Report on at least the following:

F.2.1. The main characteristics of the risk identification process, including error and fraud risk, as regards:

- Whether the process exists and is documented.

Duro Felguera has developed an action framework for implementing the system of Internal Control over Financial Reporting (“ICFR”) which sets out the quantitative and qualitative criteria for delimiting the scope. In addition, DF has created a matrix of controls targeting potential risks in each accounting process. An enforcer and a supervisor, and the evidence required, are specified for each control. The entire process ends with a self-assessment, reported by supervisors to the Economic-Financial Division of the Group.

- If the process covers all of the objectives of financial information (existence and occurrence; completeness; valuation; delivery; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency.

The reliability of the information reported by DF to the markets requires the fulfilment of the following control objectives, according to their impact on the financial statements:

- Occurrence: The reported transactions and events have occurred and relate to the entity.
- Completeness: All the facts and transactions that had to be reported have indeed been reported.
- Accuracy: Amounts and other data relating to transactions and events have been properly reported.
- Transaction period: Transactions and events have been recorded in the correct period.
- Classification: Transactions and events have been recognised in the appropriate account entries.
- Existence: Reported assets, liabilities and equity are in existence.
- Rights and obligations: The entity owns or controls the rights to the assets, and the liabilities are obligations of the entity.
- Measurement: Assets, liabilities and equity are reported in the financial statements at the appropriate amounts and any resulting valuation adjustments or allocations have been properly accounted for.

The safeguarding of assets and the prevention and detection of fraud are considered objectives of ICFR because of their impact on the above objectives.

These objectives will be regularly reviewed so that, by comparing the real situation with this theoretical framework, any areas for improvement can be identified.

- The existence of a process for identifying the scope of consolidation, taking into account, among other factors, the possible existence of complex company structures, shell companies, or special purpose entities.

Delimitation of the scope of consolidation of the Duro Felguera Group requires continuous communication between the Legal and Economic-Financial areas, more specifically the Consolidation area, so that the company has an updated view of its financial position and all the separate financial statements of the companies within the scope are properly identified and integrated with the consolidated financial statements.

- If the process takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.

The DF Group's risk control model described in section E.1. Takes account of the assessment of the effects of other types of risk inherent in its business to the extent that they affect financial reporting. This means carrying out suitable assessment and control of corporate-level risks and risks that are specific to the company's activity and operations.
In particular, as described in section E.3, the DF Group has defined 4 main risk categories: strategic, operational, financial and compliance.

- The governing body within the company that supervises the process.

Article 17 of the Board Regulations tasks the Audit Committee, among other things, with supervising the effectiveness of the Company's internal control, the internal audit and risk management systems, as well as addition to discussing with the auditors significant weaknesses of the internal control system uncovered during the audit, without jeopardising the auditor's independence.

F.3. **Control activities**

Report on whether the company has at least the following, describing their main characteristics:

F.3.1. Review and authorisation procedures for financial information published by the stock markets and a description of the ICFR, indicating those responsible, as well as documentation describing the flow of activity and controls (including those relating to the risk of fraud) of the various types of transactions which may materially affect the financial statements, including financial closing procedures and the specific review of judgements, estimates, valuations and relevant forecasts.

The Management Committee, through the Finance Division, is responsible for implementing and overseeing financial reporting.

As to review and authorisation of financial reporting, under Article 5 of the Board Regulations, the Board has the power to "approve the financial information that, due to its status as a listed company, the Company must periodically make public, ensuring that such reporting gives a true and fair view of the equity, financial position and results of the Company, in accordance with the provisions of the law." Similarly, one of the functions of the Audit Committee is "To supervise the process of preparing and reporting the mandatory financial information on the Company and, where appropriate, the Group, and to submit recommendations or proposals to the Board of Directors to ensure completeness of the information, review compliance with regulatory requirements, and ensure the appropriate delimitation of the scope of consolidation and the correct application of accounting principles."

Supervision and authorisation of financial reporting is assisted by a team of external auditors, who also review the information published at year-end, with an earlier six-monthly limited review. In contrast, 2019, the condensed consolidated interim financial statements as at 30 June 2019 underwent a full audit.

The IFCR of each of the processes and sub-processes involved in financial reporting were designed to comply with the control objectives set out at point F.2.1. For the purposes of financial reporting, the most critical processes within the DF Group's activities are listed below:

- Accounts receivable
- Accounts payable
- Fixed assets
- Accounting close
- Consolidation and reporting
- Intragroup and related-party transactions
- Taxes
- Treasury and financing
- Human resources

- Revenue and production
- Purchases

The documentation of the system of internal control over financial reporting for these processes was bolstered in 2019 to include high-level descriptions of financial reporting processes, and improved specifications of their related controls and evidence requirements. The existing system is a continuous process that involves systematic updating over time.

F.3.2. Internal IT control policies and procedures (access security, change controls, their operation, operational continuity, and segregation of duties, among others) which support relevant processes within the company and relate to the creation and publication of financial information.

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As a rule, Duro Felguera, within the framework of its ICFR system, has implemented controls of IT systems for processes and sub-processes via separation of functions, assigning different profiles to the different roles of the Group's employees.

In addition, Duro Felguera bases most of its activities on its IT systems. For this reason, in 2019 DF updated its internal control policies for information systems, adapting them to the COBiT environment (Control Objectives for Information and related Technology) in five main areas:

- Security
- Segregation of roles
- Organisation and management of the Information Technologies area
- Operation and use
- Change management

F.3.3. Internal control policies and procedures intended to guide the management of subcontracted activities and those of third parties, as well as those aspects of assessment, calculation or evaluation entrusted to independent experts, which may materially affect financial statements.

As a result of the Company's internationalisation, part of the financial reporting preparation and regulatory compliance is performed in foreign locations. To better ensure compliance with local (accounting, tax, legal, etc.) legislation in each country and, therefore, reduce exposure to compliance risk, Duro Felguera has a cooperation agreement with an internationally renowned accounting and audit firm for the preparation of financial information in foreign locations. Accordingly, compliance is up to professionals with proven knowledge of local requirements who belong to an internationally recognised firm. Nevertheless, this firm operates under the close supervision and control of Duro Felguera professionals, who verify the supporting documentation of the transactions underlying the financial statements. Duro Felguera has internal procedures in place to review the financial information prepared by the external firm, as set out in "Procedure for Review of Subcontracted Activities".

F.4. Information and communication

State whether the company has at least the following, describing their main characteristics:

F.4.1. A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining a free flow of information to those responsible for operations in the organisation, as well as an up-to-date accounting policy manual distributed to the business units through which the company operates.

The Economic-Financial Division is responsible for keeping the accounting policies affecting the Duro Felguera group up to date and communicating them appropriately. In 2019 work done to revise and update the DF Accounting Policies Manual to bring it into alignment with International Financial Reporting Standards (IFRS). The updated version of the Manual is published on the corporate intranet and is readily accessible to all Group employees involved in financial reporting.

F.4.2. Measures for capturing and preparing financial information with consistent formats for application and use by all of the units of the entity or the group, and which contain the main financial statements and notes, as well as detailed information regarding ICFR.

The process of consolidation and preparation of financial information is centralised at the Corporate Administration and Reporting Division. The process starts from receipt of the financial information required for accounting harmonisation and meeting specified reporting requirements. The data is entered on a computer tool that aids the consolidation process.

The Administration and Reporting Division also centrally establishes closing and reporting timetables and distributes them to all parties involved in the preparation of accounting and financial information.

F.5. **Supervision of system performance**

Describe at least the following:

F.5.1. The activities of the audit committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the year and the procedure through which the person responsible prepares the assessment reports on its results, whether the company has an action plan describing possible corrective measures, and whether its impact on financial reporting is considered.

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As indicated in the Board Regulations and in the General Policy on ICFR, it falls to the Audit Committee to see to the effectiveness of the Duro Felguera Group’s internal control, internal audit and risk management systems. The Audit Committee's activities, both oversight regarding ICFR and the other areas of its remit, are recorded in the minutes of its meetings.

During 2019, led by the Audit Committee, the DF Group improved the documentation of its Internal Control over Financial Reporting (ICFR). Internal Audit is also involved in overseeing the design and implementation of ICFR, and specific actions to check the effectiveness of controls are set out in the 2019 and subsequent audit plans.

F.5.2. If there is a procedure by which the account auditor (in accordance with the contents of the Normas Técnicas de Auditoría (NTA) - “Auditing Standards”), internal auditor and other experts may communicate with senior management and the audit committee or senior managers of the company regarding significant weakness in internal control identified during the review of the annual accounts or any others they have been assigned. Additionally, state whether an action plan is available for correcting or mitigating any weaknesses found.

The Audit Committee held regularly scheduled meetings with the external auditor, with the required presence of the Administration and Reporting, Economic-Financial and Internal Audit Divisions whenever thought necessary, especially for the reviews of the half-year and full-year financial statements.

F.6. **Other relevant information**

N/A

F.7. **External auditor´s report**

Report on:

F.7.1. If the ICFR information submitted to the markets has been subject to review by the external auditor, in which case the entity shall include its report as an attachment. If not, reasons why should be given.

In 2019, the Audit Committee of Duro Felguera decided to submit the information contained in this section of the Annual Corporate Governance Report for review by the external auditor. As a result, the external auditor produced the attached report on internal control over financial reporting (ICFR) for the year ended 31 December 2019.

G. EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Specify the company's level of compliance with recommendations from the Unified Code of Good Governance.

In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company´s actions. General explanations are not acceptable.

1. That the Articles of Association of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

   Complies [X]   Explanation [ ]

2. That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:

   a) The activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:

   b) The mechanisms in place to resolve possible conflicts of interest.

   Complies [ ]   Complies partially [ ]   Explanation [ ]   Not applicable [X]

3. During the annual general meeting the Chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the Annual Corporate Governance Report. In particular:

   a) Changes taking place since the previous annual general meeting.

   b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

   Complies [X]   Complies partially [ ]   Explanation [ ]

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

   And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

   Complies [X]   Complies partially [ ]   Explanation [ ]

5. That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

   And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.

   Complies [X]   Complies partially [ ]   Explanation [ ]

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

   a) Report on auditor independence.

   b) Reviews of the operation of the Audit Committee and the Nomination and Remuneration Committee.

   c) Audit Committee report on third-party transactions.

   d) Report on corporate social responsibility policy.

   Complies [X]   Complies partially [ ]   Explanation [ ]

7. The company should broadcast its general meetings live on the corporate website.

   Complies [ ]   Explanation [X]

At the last General Meeting of shareholders, the attendance rate came to 34% of share capital. The Board of Directors does not believe that a webcast of the General Meeting would have a direct impact on increasing shareholder participation.

8. The Audit Committee should strive to ensure that the Board of Directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

   Complies [X]   Complies partially [ ]   Explanation [ ]

9. That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

   And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

   Complies [X]   Complies partially [ ]   Explanation [ ]

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:

   a) Immediately distributes the additions and new proposals.

   b) Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.

   c) Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.

   d) That after the General Shareholders' Meeting, a breakdown of the results of said additions or alternative proposals is communicated.

   Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

11. That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establish in advance a general policy of long-term effect regarding such payments.

   Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

12. That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.

   And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

   Complies [X]   Complies partially [ ]   Explanation [ ]

13. That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.

   Complies [X]   Complies partially [ ]

14. That the Board of Directors approves a selection policy for directors that:

    a) Is concrete and verifiable.

    b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.

    c) Favours diversity in knowledge, experience and gender.

    That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call from the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.

    And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.

    The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.

    Complies [ ] Complies partially [X] Explanation [ ]

There are no selection procedures that are a barrier or could be a barrier to the selection of women directors. When seeking a certain professional profile, the Company takes into consideration the professional profile and only evaluates the profile that is most adequate to the corporate interests, without taking into account the gender of the candidate. However, when faced with two objectively similar professional profiles, the candidate of the least represented gender will be selected, in accordance with the provisions of the Company's Director Selection Policy and in compliance with the target that 30% of Directors should be women by 2020.

In the light of these developments and the outlook for the presence of women on the Board of the Company, we believe compliance with the Director Selection Policy has been achieved, and we expect that, if this trend continues, the 30% objective could be achieved by 2020.

In September 2019, two independent women directors (25% of the total number of members of the Board) tendered their resignations. One female and one male director were appointed by co-option. As at the date of this report there is an unfilled vacancy. As indicated earlier, a further vacancy for an independent director will arise on 1 April 2020.

The Nomination and Remuneration Committee is in the process of selecting new candidates. An active search for female candidates is a priority.

15. That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

    Complies [X] Complies partially [ ] Explanation [ ]

16. That the percentage of proprietary directors divided by the number of nonexecutive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.

This criterion may be relaxed:

a) In companies with a high market capitalisation in which interests that are legally considered significant are minimal.

b) In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.

Complies [X] Explanation [ ]

17. That the number of independent directors represents at least half of the total number of directors.

Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represents at least one third of the total number of directors.

Complies [X] Explanation [ ]

18. That companies publish and update the following information regarding directors on the company website:

a) Professional profile and biography.

b) Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.

c) Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.

d) The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.

e) Shares held in the company, and any options on the same.

Complies [X] Complies partially [ ] Explanation [ ]

19. That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies [ ] Complies partially [ ] Explanation [ ] Not applicable [X]

20. That proprietary directors representing significant shareholders must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.

Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Articles of Association unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public share offer, joint venture or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies [X]   Explanation [ ]

22. That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

And that should a director be indicted or tried for any of the offences set out in company law legislation, the Board of Directors must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her post. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies [X]   Complies partially [ ]   Explanation [ ]

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.

    Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

    This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

    Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

24. That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the Board of Directors. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

    Complies [ ]   Complies partially [ ]   Explanation [X]   Not applicable [ ]

See section C.1.2.

25. That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.

    And that the Board rules establish the maximum number of company Boards on which directors may sit.

    Complies [X]   Complies partially [ ]   Explanation [ ]

26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items do not originally appear on the agenda.

    Complies [X]   Complies partially [ ]   Explanation [ ]

27. That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.

    Complies [X]   Complies partially [ ]   Explanation [ ]

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.

Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

29. That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company's expense.

Complies [X]   Complies partially [ ]   Explanation [ ]

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require.

Complies [ ]   Explanation [X]   Not applicable [ ]

Directors are immediately informed of all new developments and changes in matters relating to auditing, accounting and legislation by the Company's internal technical services, which produce and deliver reports and are available to the Directors to clarify any doubts and provide further information as required.

31. That the agenda for meetings clearly states those matters about which the Board of Directors are to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.

When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall by duly recorded in the minutes.

Complies [X]   Complies partially [ ]   Explanation [ ]

32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies [X]   Complies partially [ ]   Explanation [ ]

33. That the chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out his duties required by law and the Articles of Association, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the company, should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies [X]   Complies partially [ ]   Explanation [ ]

34. That when there is a coordinating director, the Articles of Association or the Board rules should confer upon him the following competencies in addition to those conferred by law: chairman of the Board of Directors in the absence of the chairman and deputy chairmen, should there be any; reflect the concerns of nonexecutive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the chairman.

Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the company.

Complies [X]   Explanation [ ]

36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:

a) The quality and efficiency of the Board of Directors' work.

b) The workings and composition of its committees.

c) Diversity of membership and competence of the Board of Directors.

d) Performance of the chairman of the Board of Directors and the chief executive officer of the company.

e) Performance and input of each director, paying special attention to those in charge of the various Board committees.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies [X]   Complies partially [ ]   Explanation [ ]

37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.

Complies [ ]   Complies partially [ ]   Explanation [ ]   Not applicable [X]

38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.

Complies [ ] Complies partially [ ] Explanation [ ] Not applicable [X]

39. That the members of the audit committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.

Complies [X] Complies partially [ ] Explanation [ ]

40. That under the supervision of the audit committee, there must be a unit in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive chairman of the Board or of the audit committee.

Complies [X] Complies partially [ ] Explanation [ ]

41. That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

42. That in addition to the provisions of applicable law, the audit committee should be responsible for the following:

1. With regard to information systems and internal control:

   a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.

   b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, reelection and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

   c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.

2. With regard to the external auditor:

   a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.

   b) Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.

   c) Insist that the company file a relevant fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.

   d) Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.

   e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding the auditor's independence.

Complies [X] Complies partially [ ] Explanation [ ]

43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.

Complies [X] Complies partially [ ] Explanation [ ]

44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

45. That the risk management and control policy identify, as a minimum:

a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off balance sheet risks.

b) Fixing of the level of risk the company considers acceptable.

c) Means identified in order to minimise identified risks in the event they transpire.

d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks.

Complies [X] Complies partially [ ] Explanation [ ]

46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:

a) Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.

b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.

c) Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.

Complies [ ] Complies partially [X] Explanation [ ]

The Company understands that the Audit Committee must necessarily be independent. Therefore, it considers that any unit that reports functionally to the Committee should not be involved in its management, so it does not comply with the second part of b) above, as Internal Audit does not participate in risk management decisions.

47. That members of the appointment and remuneration committee -- or of the appointments committee and the remuneration committee if they are separate -- are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to carry out and that the majority of said members are independent directors.

Complies [X] Complies partially [ ] Explanation [ ]

48. That high market capitalisation companies have formed separate appointments and remuneration committees.

Complies [ ] Explanation [ ] Not applicable [X]

49. That the appointments committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a vacancy on the Board of Directors.

Complies [X] Complies partially [ ] Explanation [ ]

50. That the remuneration committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:

a) Propose basic conditions of employment for senior management.

b) Verify compliance with company remuneration policy.

c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.

d) See that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.

e) Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.

Complies [X] Complies partially [ ] Explanation [ ]

51. That the remuneration committee consults with the chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.

Complies [X] Complies partially [ ] Explanation [ ]

52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:

a) That they are comprised exclusively of non-executive directors, with a majority of them independent.

b) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee's last meeting.

c) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.

d) That their meetings be recorded and the minutes be made available to all directors.

Complies [X]　　Complies partially [ ]　　Explanation [ ]　　Not applicable [ ]

53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organisation, which at least the following responsibilities shall be specifically assigned thereto:

a) Verification of compliance with internal codes of conduct and the company's corporate governance rules.

b) Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.

c) The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.

d) Review of the company's corporate social responsibility policy, ensuring that it is orientated towards value creation.

e) Follow-up of social responsibility strategy and practice, and evaluation of degree of compliance.

f) Supervision and evaluation of the way relations with various stakeholders are handled.

g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.

h) Coordination of the process of reporting on diversity and reporting nonfinancial information in accordance with applicable rules and international benchmarks.

Complies [X]   Complies partially [ ]   Explanation [ ]

54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, as a minimum:

a) The objectives of the corporate social responsibility policy and the development of tools to support it.

b) Corporate strategy related to sustainability, the natural environment and social issues.

c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.

d) Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.

e) Means of supervising non-financial risk, ethics, and business conduct.

f) Communication channels, participation and dialogue with stakeholders.

g) Responsible communication practices that impede the manipulation of data and protect integrity and honour.

Complies [X] Complies partially [ ] Explanation [ ]

55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.

Complies [X] Complies partially [ ] Explanation [ ]

56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.

Complies [X] Explanation [ ]

57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares that the director may be obliged sell in order to meet the costs related to their acquisition.

Complies [ ] Complies partially [ ] Explanation [X]

Remuneration in the form of shares or share options is provided for in the Bylaws and in the Directors' Remuneration Policy approved by the shareholders at a General Meeting. However, it is not currently applied.

58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.

And, in particular, that variable remuneration components:

a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.

b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.

c) Are based upon balancing short-, medium- and long-term objectives, permitting the reward of continuous achievement over a period of time long enough to judge creation of sustainable value such that the benchmarks used for evaluation are not comprised of one-off, seldom occurring or extraordinary events.

Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

59. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.

Complies [ ]   Complies partially [ ]   Explanation [X]   Not applicable [ ]

Variable remuneration to Directors in their capacity as such, in line with the Bylaws, is capped at 2.5 % of net profit, once statutory payments have been covered and provided that the dividend on shares is not less than 4%.

In view of the above, once the Company's shareholders approve the financial statements at a General Meeting and resolve to distribute a dividend in an amount equal to or greater than that established in the Remuneration Policy and the Bylaws, it is possible to verify compliance with the conditions immediately, since variable remuneration is based on the closed and audited financial statements, which is the one that is submitted at the General Meeting for deliberation.

60. That remuneration related to company results takes into account any reservations which may appear in the external auditor’s report which would diminish said results.

Complies [ ]   Complies partially [ ]   Explanation [X]   Not applicable [ ]

As indicated in the response to recommendation 59 above, since the General Meeting is the corporate body that approves the financial statements that serve as the yardstick for determining whether or not variable remuneration to Directors is due, the shareholders at a General Meeting examine and consider the report of the external auditors, which would include any qualifications as to the financial statements and results.

61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.

Complies [ ] Complies partially [ ] Explanation [X] Not applicable [ ]

This recommendation is not followed because although the Remuneration Policy provides for the possibility of delivering shares or financial instruments linked to the value of shares, there are no remuneration plans in force that involve payment by delivery of shares or financial instruments linked to their value.

62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.

The foregoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

Complies [ ] Complies partially [ ] Explanation [ ] Not applicable [X]

63. That contractual arrangements include a clause which permits the company to seek reimbursement of variable remuneration components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.

Complies [ ] Complies partially [ ] Explanation [X] Not applicable [ ]

This clause is not included because the targets that attract variable remuneration must be met in the financial year, i.e. in the short term, and are verifiable before payment.

64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

H. FURTHER INFORMATION OF INTEREST

1. If there is any aspect regarding corporate governance in the company or other companies in the group that have not been included in other sections of this report, but which are necessary in order to obtain a more complete and comprehensible picture of the structure and governance practices in the company or group, describe them briefly below.

2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

   Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based, or other. In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July, 2010:

Yes. Due to a lack of space in other sections, following the principle of transparency that governs the Company's policies and our policy on relations with shareholders, the composition and members of the Board and Committees during 2019 are identified below.

Comments on section A.3.

As indicated in section A.3, at the General Meeting of 31 May 2019 the shareholders resolved to decrease share capital to offset losses and to group together all shares, raising par value per share but not total nominal capital, and exchange them for newly issued shares in the proportion of one new share for every fifty old shares (“reverse split”).

On 19 June 2019, the Board decided to execute the grouping of shares and exchange for newly issued shares in the proportion of one (1) new share for every fifty (50) old shares, increasing the par value of the shares from the one thousandth of a euro (€0.001) established after the share capital reduction, to five euro cents (€0.05), without modifying the share capital figure, thereby reducing the number of shares in circulation.

The effective date of the grouping was 1 July 2019.

Section C.1.33.

The financial statements for 2018 have not attracted any reservations or qualifications. However, one paragraph specifically addresses the issue of material uncertainty as to the “going concern” principle, as quoted below:

“We draw your attention to note 22 to the financial statements, which states that the Company has equity worth less than half the nominal value of its share capital. Therefore, at the next General Meeting, the Company's Directors will propose a reduction in share capital by the amount necessary to bring equity back into balance.

Additionally, as indicated in the note, updated cash flow projections show a need for additional financing. The Company and its Group are currently negotiating with financial institutions and clients to explore new financing channels that will enable the Group to have an adequate debt structure to meet its liquidity needs and payment obligation in the normal course of operations. These negotiations are at an early stage. The Directors of the Company have prepared the financial statements on a going concern basis, considering their favourable expectations for delivering on cash forecasts and actions to restore equity. The circumstances described above indicate material uncertainty as to the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.”

As indicated in section A.3, the Company carried out a capital reduction that rebalanced its equity.

Comments on section C.2 Board Committees

The Board decided to modify its own Regulations to further specify and technically improve certain points, especially after the entry into force of Royal Decree 18/2017 on inclusion in the consolidated financial statements and management report of the consolidated non-financial statement, and the publication of the Technical Guide on Nomination and Remuneration Committees.

The modification widened the scope of concern and functions of the Committees and reassigned certain duties among them.

Comments on section C.2.1.

AUDIT COMMITTEE

Continuation of the section relating to the functioning of the Committee and the key actions carried out during 2019:

Functions:

The main functions of the Committee are to:

a) Define the procedure for selecting the statutory auditor, including the relevant selection criteria, such as training, experience and independence.

b) Report to the General Meeting on any business that falls within the committee's remit and, in particular, regarding the outcome of the audit, explaining how this has contributed to the integrity of financial information and the role that the committee has played during this process.

c) Supervise the efficiency of the Company's internal controls, internal audit and risk management systems, while also discussing with the statutory auditor any significant weaknesses in the internal control system that may have been detected over the course of the audit, without compromising its independence. To this end, and where appropriate, recommendations or proposals may be submitted to the Board of Directors and the corresponding time frame for follow-up activities.

d) In particular, the Company shall have a risk control and management unit, under the supervision of this committee, to, *inter alia*, ensure that risk control and management systems are functioning correctly and, specifically, that major risks the Company is exposed to are correctly identified, managed and quantified; play an active supervisory role in the preparation of risk strategies and in key decisions about their management; and ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the Board of Directors.

e) Monitor the preparation and presentation of the required financial and non-financial information on the Company and, where appropriate, the Group, and submit recommendations or proposals to the Board of Directors with a view to safeguarding its integrity, while checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles.

f) Ensure the independence of the internal audit, risk and compliance functions, which report to the committee; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; set its priorities and work programmes, ensuring that it focuses primarily on the main risks the Company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

g) Examine and review the annual work plan of the internal audit, risk and compliance functions, including reports of any incidents that may have arisen while carrying out the work; and scrutinising the reports on the activities of those functions at the end of each year.

h) Escalate to the Board of Directors proposals to select, appoint, re-elect and replace the auditor, assuming responsibility for the selection process pursuant to applicable EU legislation, in addition to the conditions of her/her engagement and regularly request information on the audit plan and its execution from him/her, in addition to ensuring his/her independence in the exercise of audit duties.

i) Establish appropriate relationships with the external auditor to receive information on issues that may threaten his/her independence, to be analysed by the Committee, and any other issues related to the process of auditing financial statements. Furthermore, when appropriate, authorise services other than those prohibited under applicable legislation, as well as the other communications stipulated in audit legislation and technical auditing standards. In all cases, an annual statement must be received from the external auditors, regarding their independence with regards to their relationship with the entity or directly or indirectly related entities, in addition to detailed information on an individual basis about any type of payments received from these entities by the external auditor or by persons or entities related to them, pursuant to the regulations on auditing activities, ensuring that the Company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

On this point, the Committee shall:

- Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.

- Ensure that the Company notifies any change of external auditor to the Comisión Nacional del Mercado de Valores as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

- Investigate the issues giving rise to the resignation of the external auditor, should this come about.

- Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.

- Ensure fulfilment of the audit engagement, requiring that the auditor's opinion on the financial statements and the content of the report are drafted clearly and precisely.

- Issue on an annual basis, prior to the issuance of the audit report on the financial statements, a reporting containing an opinion regarding whether the independence of auditors and audit firms has been compromised. This report shall be published on the Company's website sufficiently in advance of the Annual General Meeting, and must contain, in all cases, a reasoned evaluation of the provision of each and every additional service referenced in the previous point, considering each service individually and jointly, separate to the statutory audit and in relation to the system of independence and regulations governing auditing activities.

j) Inform the Board of Directors in advance about all matters foreseen in law, the Bylaws and the Regulations of the Board of Directors; in particular those regarding:

j.1) The financial information that the Company must regularly make public; j.2) The non-financial information that the Company must regularly make public;

j.3) The creation or acquisition of shares in special purpose entities or those registered in countries or territories

considered tax havens; and

j.4) Transactions with related parties.

Any report issued by the Audit Committee regarding related-party transactions shall be published on the Company's website sufficiently in advance of the Annual General Meeting.

j.5) Any structural changes, mergers or acquisitions the Company may be planning, including their financial terms and accounting impact and, in particular, the proposed exchange ratio.

k) Receive from Senior Management the justification for any change of accounting criteria or principles, and to review such reasons.

l) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities in the Company.

m) Supervise the Internal Codes of Conduct and regulatory compliance not expressly attributed to another Committee or to the Company's Board of Directors. In this respect, the Audit Committee shall:

m.1) Supervise the internal standards and procedures there to ensure the proper monitoring of the code of conduct and regulatory compliance across the various departments and areas of the Company, especially the Company's General Code of Conduct and internal regulations on the stock market; and ensure that they remain up to date at all times.

n) Oversee compliance with the Company's corporate governance rules. In this respect, the Audit Committee shall be responsible for:

n.1) Supervision of transparency in corporate actions.

n.2) The periodic evaluation of the effectiveness of the Company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

n.3) Reporting and, if appropriate, raising proposals to the Board of Directors regarding the development of the corporate governance rules for the Company and its Group based on the provisions of the Bylaws and in accordance with the applicable legislation at all times.

o) Supervise compliance with the Company's corporate social responsibility policy. In this respect:

o.1) Review the Company's corporate social responsibility policy, ensuring that it is geared to value creation.

o.2) Specifically, the Committee shall ensure that the corporate social responsibility policy specifies at least:

- The objectives of this policy and the development of tools to support it.

- Corporate strategy related to sustainability, the natural environment and social issues.

- Concrete practices on matters related to: employees, customers, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.

- Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.

- Communication channels, participation and dialogue with stakeholders.

- Responsible communication practices that impede the manipulation of data and protect integrity and honour.

p) Supervision of the process of reporting on diversity and reporting non-financial information in accordance with applicable rules and international benchmarks.

q) Perform any other duties entrusted to it by the Board of Directors. Main actions in the year:

1. Draft Regulation of the Audit, Risk and Compliance Committee.

2. Review of projects in progress.

3. Implementation of Corporate and Project Risk Management Control, reporting directly to the Audit Committee.

A. Implementation of improvements to the ICFR system.

5. Compliance actions: Proposed internal risk mitigation rules. Code of Conduct. Whistleblower Channel.

6. Study of supporting documentation of commercial brokering contracts.

7. Internal Regulations of the Audit, Risk and Compliance Committee, in line with the CNMV Technical Guide for Audit Committees.

NOMINATION AND REMUNERATION COMMITTEE

Functions:

The Committee, independently of any other functions entrusted to it by the Board of Directors or those which, within the scope of its functions, it may submit to the Board for consideration and approval, performs the following main duties:

1. In relation to directors and the Board of Directors:

a) Evaluate the competencies, knowledge and experience necessary for the Board of Directors. To this end, the Committee shall define the duties and capabilities necessary in candidates who shall fill each vacancy and evaluate the time and dedication necessary in order to efficiently fulfil their commitment, and run an annual check on compliance with the director selection policy.

b) Set a target for representation for the underrepresented gender on the Board, and draw up guidelines on how to achieve this objective.

c) Submit to the Board of Directors proposals for the appointment of independent directors for their nomination through co-option or for their submission to the General Meeting's decision, in addition to proposals for the re-election or dismissal of said directors by the General Meeting.

d) Report on any proposals for appointment of all other directors for their appointment by co-option by the Board or for their submission to the General Meeting's decision, in addition to proposals for the re-election or dismissal of such directors by the General Meeting.

e) Research and organise the succession of the Chairman of the Board of Directors and, as appropriate, the Chief Executive of the Company, formulating proposals to the Board of Directors so that said succession can be processed in an ordered and well-executed manner.

f) Propose the remuneration policy to the Board of Directors, as well as the individual remuneration and other contractual terms of executive directors, while ensuring compliance with the same.

g) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.

h) Verify the information on director pay contained in corporate documents, including the Annual Directors' Remuneration Report.

i) See that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.

j) Report to the Board of Directors on proposals for removal from office of a director due to breach of his or her duties as set out in the legislation and internal regulations in force at the given time, or due to the occurrence of any of the events of removal or resignation set out in the applicable regulations.

2. In relation to Senior Management personnel and executive remuneration policies:

a) Inform of any proposals to the Board of Directors for appointment or dismissal of senior management and the basic terms of their contracts. For these purposes, the Committee shall receive from the Management, the Board of Directors or its committees, as appropriate, a description of the post to be filled, the desired profile of potential candidates, the selection proposal and the contractual terms that will be offered to the new incumbent, all of which must be in line with the remuneration policy for senior managers. The Committee may also interview candidates if it deems this necessary, request further information and, in general, take any action it deems necessary before making its final proposal.

b) Propose, to the Board of Directors, the remuneration policy of general managers and of whomever else discharges senior management duties under the direct supervision of the Board of Directors, the Executive Committee or Chief Executive Officers, while ensuring compliance with that policy.

c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.

d) Verify the information on director pay contained in corporate documents, including the Annual Directors' Remuneration Report.

e) Verify, each time substantial amendments are made to the contracts or changes made to the policies, that the terms of the contracts of the senior management are consistent with the remuneration policies in force.

f) Ensure, annually, that senior management remuneration policies are properly implemented, that no payments are made that are not provided for in those policies, and propose any measures that may be needed to recover any amounts unduly paid.

g) Periodically review the general remuneration systems for the Group's staff, including an assessment as to their suitability and results.

3. Review and evaluate Corporate Governance Policies, ensuring that all such policies remain up-to-date and compliant with prevailing law and regulations, and making any proposals for review, modification and improvement that it deems appropriate.

A. Draw up, for submission to the Board of Directors, the corresponding annual directors' remuneration statement (ADRS), which must be disclosed in accordance with the law.

5. Perform any other duties entrusted to it by the Board of Directors.

Key actions carried out in 2019 included:

1. Proposal to appoint Directors by co-option.

2. Proposal to the shareholders at the General Meeting to ratify Director appointments.

3. Proposal to appoint members of the Audit Committee and of the Nomination and Remuneration Committee.

4. Proposal for appointment of Senior Managers.

5. Proposal to modify the grounds for resignation, removal and dismissal of directors under the Regulations of the Board of Directors.

6. Drafting of an Internal Committee Regulation in compliance with the CNMV Technical Guide for Nomination and Remuneration Committees.

7. Assessment of the Board of Directors with the assistance of an external and independent third party.

This Annual Corporate Governance Report was approved by the Board of Directors of the company at the meeting held on:

22/05/2020

State whether any director has voted against or abstained from approving this report.

[ ] Yes
[√] No

DURO FELGUERA, S.A.

Auditor's report on the "Information relating to Internal Control over Financial Reporting (ICFR-SCIIF in Spanish)" for 2019
(Free translation from the original in Spanish)

Building a better working world

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Translation of a report originally issued in Spanish. In the event of discrepancy the Spanish-language version prevails

AUDITOR'S REPORT ON THE "INFORMATION RELATING TO INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR-SCIIF IN SPANISH)" FOR 2019

To the directors of Duro Felguera, S.A.

At the request of the Board of Directors of Duro Felguera S.A. (the Company) and its subsidiaries (the Group), and in accordance with our engagement letter dated December 2, 2019, we have performed certain procedures on the accompanying "ICFR-related information" included in the 2019 Annual Corporate Governance Report of the Group, which summarizes the Company's internal control procedures regarding annual financial information.

The Board of Directors is responsible for taking appropriate measures to reasonably ensure the implementation, maintenance, supervision, and improvement of a correct internal control system, as well as preparing and establishing the content of all the related accompanying ICFR data.

It is worth noting that apart from the quality of design and operability of the Group's internal control system in relation to its annual financial information, it only provides a reasonable, rather than absolute, degree of security regarding its objectives due to the inherent limitations to the internal control system as a whole.

Throughout the course of our audit work on the financial statements, and in conformity with Technical Auditing Standards, the sole purpose of our evaluation of the Group's internal control system was to establish the scope, nature, and timing of the audit procedures performed on the Group's financial statements. Therefore, our internal control assessment, performed for the audit of the aforementioned financial statements, was not sufficiently extensive to enable us to issue a specific opinion on the effectiveness of the internal control over the regulated annual financial information issued.

For the purpose of issuing this report, we exclusively applied the following specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of the abovementioned procedures performed was limited and substantially less than that of an audit or a review on the internal control system, we have not expressed an opinion regarding its efficacy, design, or operational effectiveness regarding the Group's annual financial information for 2019 described in the accompanying ICFR.

Consequently, had we performed procedures additional to those shown in the abovementioned Guidelines, or carried out an audit or review on the internal control system of regulated annual financial information, other matters might have come to our attention which would have been reported to you.

Since this special engagement does not constitute an audit of the financial statements or a review in accordance with prevailing audit regulations in Spain, we do not express an opinion in the terms established therein.

The following procedures were applied:

1. Read and understand the information prepared by the Group in relation to the ICFR - which is provided in the disclosure information included in the Management Report- and assess whether such information addresses all the required information which will follow the minimum content detailed in Section F, relating to the description of the ICFR, as per the Annual Corporate Governance Report model established by CNMV Circular 5/2013 of June 12, 2013, subsequently amended by CNMV Circular 7/2015 of June 22, 2015 and CNMV Circular 2/2018 of June 12 (hereinafter the CNMV Circulars).

2. Question personnel in charge of preparing the information described in the above section 1, to: (i) obtain an understanding of its preparation process; (ii) obtain information making it possible to evaluate whether the terminology employed is in line with reference framework definitions; (iii) gather information regarding whether the described control procedures are implemented and functioning within the Group.

3. Review the explanatory documentation supporting the information described in section 1 above, which should, mainly, include that information directly provided to those in charge of preparing the descriptive ICFR information. This documentation includes reports prepared by the internal audit function, senior executives and other internal/external specialists in their role supporting the Audit and Compliance Committee.

4. Compare the information contained in section 1 above with the Group's ICFR knowledge obtained as a result of performing the procedures within the framework of auditing the financial statements.

5. Read the minutes of the Board of Directors Meetings, Audit and Compliance Committee, and other Company commissions in order to evaluate the consistency between issues described in the minutes related to the ICFR and information discussed in section 1 above.

6. Obtain the representation letter related to the work performed, duly signed by those responsible for preparing and authorizing the issuance of the information discussed in section 1 above.

As a result of the procedures applied on the ICFR-related information, no inconsistencies or incidents have come to our attention which might affect it.

This report was prepared exclusively within the framework of the requirements of the article 540 of the Spain's Corporate Enterprises Act, and CNMV Circulars on ICFR description in the Annual Corporate Governance Report.

ERNST & YOUNG, S.L.

(signed on the original Spanish version)

Enrique Quijada Casillas

May 22, 2020

DURO FELGUERA, S.A. AND SUBSIDIARIES

APPROVAL OF THE BOARD OF DIRECTORS

Chairman	Rosa Isabel Aza Conejo
Chief Executive Officer	José María Orihuela Uzal
Director	Acacio F. Rodríguez García
Director	Ignacio Soria Vidal
Director	José Julián Massa Gutiérrez del Álamo
Director	Valeriano Gómez Sánchez
Director	Jordi Sevilla Segura
Secretary, non-director	Secundino Felgueroso Fuentes

Certificate prepared by Secundino Felgueroso Fuentes, Secretary to the Board of Directors, to state that after the preparation and majority approval of the Consolidated Balance Sheet, the Consolidated Income Statement, Statement of Comprenhensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flow, Notes to the Consolidated Annual Accounts and Consolidated Management Report, for the year ended 31 December 2019, as well as the signing of statement of responsibility for the content of the accounts by the Directors, they proceeded to sign this document approved by the Chairman, including a page in the Spanish language version signed by each of the Board Members, whose full names and positions are indicated after the signature, which I validate and certify. In the event of discrepancy, the Spanish language version prevails.

Gijón, 22 May 2020

Rosa Isabel Aza Conejo
Chairman

Secundino Felgueroso Fuentes
Secretary, non-director