

**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, 2018**

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, 2018, 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, 2018 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 call your attention to the matter described in Note 2.1. to the accompanying consolidated financial statements, which explains that the parent company's equity is below half of share capital. As a result, the directors will propose to decrease share capital at the next general shareholders' meeting by the amount necessary to restore the parent company's equity structure. Moreover, as explained in the aforementioned note, updated cash forecasts show the need for additional financing. Consequently, the Group is currently negotiating with financial institutions and its clients to explore new sources of financing to ensure that its debt structure is adequate for meeting its liquidity needs and payment commitments in the normal course of business. However, these negotiations are still in their initial phase. The parent company's directors have prepared the accompanying consolidated financial statements on a going concern basis given that it expects to meet its cash projections and take other measures to stabilize equity. The aforementioned circumstances are indicative of the existence of material uncertainty that could raise significant doubts as to the Group's capacity to continue as a going concern. 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	<p>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.</p> <p>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.</p> <p>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</p>
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- 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.
 - ▶ We checked that the disclosures in the notes to the accompanying consolidated financial statements related to the recognition of revenue from contracts based on the stage of completion method were in conformity with the regulatory framework for financial reporting applicable to the Group.

Financial restructuring and capital increase

Description As explained in Notes 1, 22.a) and 31 to the accompanying consolidated financial statements, in July 2018, the parent company completed the process of refinancing its bank debt as well as the capital increase.

The refinancing agreement involved restructuring a gross debt totaling 318 million euros by partially converting two types of convertible bonds (Type A and Type B), as well as restructuring the outstanding financial liability on a syndicated loan amounting to 85 million euros, and a revolving guarantee facility and counter-guarantee amounting to 100 million euros.

Given the relevance of this transaction, we determined the analysis of the impact and recognition of the refinance agreement on profit and loss for 2018 to be a key audit matter.

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- Our response** With regard to this matter, our audit procedures included, among others, the following:
- ▶ Reviewing the documents comprising the refinancing agreement to gain an understanding of the transaction, as well as analyzing the proper measurement and recognition policies applied to it.
 - ▶ Obtaining a valuation of type A and type B convertible bonds prepared by an expert hired by the parent company and, with the collaboration of our internal experts, reviewing the valuation applied by the Group to the type A and type B bonds included in the agreement as well as how they were classified for accounting purposes.

- ▶ Evaluating the impact on profit and loss of the refinancing transaction.
- ▶ 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, 2018, "Trade and other receivables," net of impairment losses, amounted to 132 million and 143 million euros, respectively. As explained in the aforementioned notes, of these amounts, the main past-due receivables pertain to Termocentro (Venezuela), Gangavaram Port Limited and Khrisna Port and Tuticorin (India), and Roy Hill projects (Australia).

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.

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, as well as their assessment of the risk related to evaluating the recoverability of the India project's past-due receivables under arbitration, 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 C.A. Electricidad de Caracas (CDC) 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.
- ▶ Obtaining the partial final arbitral award of the Singapore International Arbitration Centre (SIAC) issued on February 28, 2019, reviewing the related accounting effects on profit or loss for the year, as explained in Note 41 to the accompanying consolidated financial statements. Obtaining and reviewing for this purpose, with the collaboration of our legal specialists, the analyses and assessments conducted by the Group's external legal advisors, including: (i) collection periods stipulated by the arbitration, (ii) accounting treatment of interest and litigation costs, on which the court will rule in its additional award and (iii) evaluation of the relevant liabilities estimated by Group management based on the opinion of their legal advisors.

- ▶ 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, given the early stages of the proceedings, 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.

Other information: consolidated management report

Other information refers exclusively to the 2018 consolidated management report, the preparation of which is the responsibility of the parent 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 in the above paragraph, the information contained in the consolidated management report is consistent with that provided in the 2018 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 opinion. 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 March 29, 2019.

Term of engagement

The ordinary general shareholders' meeting held on April 21, 2016 appointed us as auditors for 3 years, commencing on December 31, 2016.

ERNST & YOUNG, S.L.

(signed in the original version)

José Enrique Quijada Casillas

March 29, 2019

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

Consolidated Financial Statements and Consolidated Management Report
for the year ended 31 December 2018



DURO FELGUERA, S.A. AND SUBSIDIARIES

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DURO FELGUERA, S.A. AND SUBSIDIARIES

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DURO FELGUERA, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2018 AND 2017
(€ thousand)

ASSETS	Note	At 31 December	
		2018	2017
Property, plant and equipment	7	40,263	76,697
Investment properties	8	33,590	27,400
Intangible assets	9	16,727	19,174
Investments in associates	10	4,595	20
Available-for-sale financial assets	11	4,451	5,590
Loans and other receivables	11-12	982	413
Deferred tax assets	24	41,643	11,032
NON-CURRENT ASSETS		142,251	140,326
Non-current assets held for sale	6	4,254	27,395
Inventories	14	12,319	22,196
Trade and other receivables	11-12	395,711	473,724
Financial receivables	11	3	16
Derivative financial instruments	11-13	-	1,052
Current tax assets		1,237	3,412
Cash and cash equivalents	11-15	103,097	90,579
CURRENT ASSETS		516,621	618,374
TOTAL ASSETS		658,872	758,700

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 2018 AND 2017

(€ thousand)

	Note	At 31 December	
		2018	2017
<u>EQUITY AND LIABILITIES</u>			
Share capital	16	48,000	80,000
Share premium	16	79,152	-
Accumulated exchange differences		(9,829)	(10,603)
Convertible bonds	22	8,093	-
Retained earnings and other reserves	18	(80,409)	(220,436)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS		<u>45,007</u>	<u>(151,039)</u>
Non-controlling interests	20	(36,489)	(13,807)
EQUITY		<u>8,518</u>	<u>(164,846)</u>
DEFERRED INCOME	21	<u>4,260</u>	<u>6,631</u>
Borrowings	11-22	99,881	74,256
Deferred tax liabilities	24	42,106	13,751
Employee benefits	25	1,517	1,437
Provisions for other liabilities and charges	26	23,174	1,956
NON-CURRENT LIABILITIES		<u>166,678</u>	<u>91,400</u>
Liabilities associated with non-current assets held for sale	6	-	20,861
Borrowings	11-22	6,695	268,393
Derivative financial instruments	11-13	-	2
Trade and other payables	11-23	365,384	418,168
Current tax liabilities		3,658	2,229
Employee benefits	25	7,404	7,742
Provisions for other liabilities and charges	26	96,275	108,120
CURRENT LIABILITIES		<u>479,416</u>	<u>825,515</u>
TOTAL EQUITY AND LIABILITIES		<u>658,872</u>	<u>758,700</u>

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



DURO FELGUERA, S.A. AND SUBSIDIARIES

**CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED
31 DECEMBER 2018 AND 2017
(€ thousand)**

	Note	Year ended December 31	
		2018	2017
Revenue	27	421,325	624,126
Changes in inventories of finished goods and work in progress		(621)	2,720
Cost of sales		(288,672)	(444,161)
Gross profit		132,032	182,685
Employee benefits expense	28	(102,476)	(121,428)
Amortisation and depreciation	7-8-9	(8,052)	(10,264)
Operating expenses	29	(102,572)	(109,255)
Other gains/(losses) net	30	(50,692)	(136,535)
Operating profit/(loss)		(131,760)	(194,797)
Net finance income/(cost)	31	213,672	(19,950)
Impairment of financial instruments		(2,843)	(3,376)
Share of loss/(profit) of associates	10	(177)	-
Profit/(loss) before tax		78,892	(218,123)
Income tax expense	32	(3,700)	(53,095)
Profit/(loss) for the year from continuing operations		75,192	(271,218)
Attributable to:			
Shareholders of the company		99,430	(254,496)
Non-controlling interests	20	(24,238)	(16,722)
		75,192	(271,218)
Earnings/(loss) per share for the year from continuing operations attributable to shareholders of the company (€ per share)			
- Basic	33	0.05	(1.77)
- Diluted	33	0.04	(1.77)

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 2018 AND 2017
(€ thousand)**

	<u>Note</u>	<u>Year ended December 31</u>	
		<u>2018</u>	<u>2017</u>
Profit/(loss) for the year		75,192	(271,218)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Net gain/(loss) on equity instruments at fair value through other comprehensive income		(825)	-
Revaluation/(reversal of revaluation) of property, plant and equipment and intangible assets		(2,134)	-
Currency translation differences		(2,489)	-
Other comprehensive income not to be reclassified to profit or loss		-	-
Income tax relating to items that will not be reclassified		1,156	-
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value available-for-sale financial assets		-	(381)
Cash flow hedges		(1,050)	6,668
Currency translation differences		2,835	(9,932)
Other income and expenses that may be reclassified to profit or loss		(26,632)	-
Income tax relating to items that may be reclassified to profit or loss	24	469	(5,982)
Other comprehensive income for the year, net of tax		(28,670)	(9,627)
Total comprehensive income for the year		46,522	(280,845)
Attributable to:			
- Shareholders of the company		70,565	(264,679)
- Non-controlling interests		(24,043)	(16,166)
		46,522	(280,845)
Total comprehensive income for the year attributable to shareholders of the company from:			
• Continuing operations		70,565	(264,679)

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 2018 AND 2017
(€ thousand)

	Equity attributable to owners of the parent							Total equity	
	Capital	Share premium	Legal reserve, other reserves and retained earnings (1)	Treasury shares	Profit/(loss) attributable to the parent	Other equity instruments	Translation differences and other		Non-controlling interests
Balance at 1 January 2017	80,000	-	159,859	(87,719)	(18,197)	-	(16,443)	3,671	121,171
Profit/(loss) for the year	-	-	-	-	(254,496)	-	-	(16,722)	(271,218)
Other comprehensive income	-	-	-	-	-	-	(10,183)	556	(9,627)
Total comprehensive income	-	-	-	-	(254,496)	-	(10,183)	(16,166)	(280,845)
Distribution of dividends	-	-	-	-	-	-	-	(1,072)	(1,072)
Transfers between equity items	-	-	(18,197)	-	18,197	-	-	-	-
Other changes	-	-	(3,860)	-	-	-	-	(240)	(4,100)
Balance at 31 December 2017	80,000	-	137,802	(87,719)	(254,496)	-	(26,626)	(13,807)	(164,846)
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)	(24,000)	79,152	70,560	-	-	-	-	-	125,712
Cancellation of treasury shares	(8,000)	-	(79,719)	87,719	-	-	-	-	-
Conversion of financial liabilities into convertible bonds	-	-	-	-	-	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 (2)	-	-	(8,127)	-	-	-	-	566	(7,561)
Balance at 31 December 2018	48,000	79,152	(137,716)	-	99,430	8,093	(51,952)	(36,489)	8,518

(1) For the purposes of this statement, "Reserves" includes the following equity items on the consolidated balance sheet: Reserves and interim dividend

(2) Includes mainly capital increase costs (Note 16).

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 2018 AND 2017
(€ thousand)**

	Note	Year ended 31 December	
		2018	2017
Cash flows from operating activities			
Cash generated from operations	35	(120,138)	(27,203)
Interest paid	31	(10,689)	(10,262)
Income tax paid		-	-
Net cash generated from/(used in) operating activities		(130,827)	(37,465)
Cash flows from investing activities			
Purchases of property, plant and equipment and investment properties	7-8	(671)	(1,971)
Proceeds from sale of property, plant and equipment and investment properties	7-8	27,059	604
Purchases of intangible assets	9	-	(585)
Other movements in investing activities		10,053	(6,815)
Interest received	31	8,230	1,680
Net cash generated from/(used in) investing activities		44,671	(7,087)
Cash flows from financing activities			
Issuance of equity instruments	1	125,712	-
Proceeds from borrowings		1,101	32,533
Repayments of borrowings	22	(29,115)	(41,132)
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)	(1,072)
Other proceeds from/(payments for) financing activities		86	2,443
Net cash generated from/(used in) financing activities		97,475	(7,228)
Net (decrease)/increase in cash and cash equivalents		11,319	(51,780)
Cash and bank overdrafts at the beginning of the year		90,579	152,397
Profit/(loss) on exchange differences in cash and cash equivalents		(705)	(10,038)
Impact of Argentina's consideration as a hyperinflation economy. Loss of purchasing power.	31	1,904	-
Cash and cash equivalents at the end of the year	15	103,097	90,579

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



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 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.



DURO FELGUERA, S.A. AND SUBSIDIARIES

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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 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.
DF Operaciones y Montajes, S.A.U.	100%	Gijón	Pressure vessels and heavy boiler-making
Duro Felguera Calderería Pesada, S.A.U.	100%	Gijón	Manufacture of shoring material
DF Técnicas de Entibación, S.A.U. (2)	100%	Llanera	Fuel and gas storage equipment
Felguera I.H.I., S.A.	60%	Madrid	Hydrocarbon unloading, storage, transfer, processing and handling
Tanques de Cartagena, S.A. (2)	60%	Cartagena	Development of business management software.
Felguera Tecnologías de la Información, S.A. (2)	60%	Llanera	Investment in trading, industrial and service companies, agency and mediation services in diverse types of contract, and securities management and administration.
Duro Felguera Investment, S.A U. (2)	100%	Gijón	Provision of engineering services
DF Ingeniería Técnica de Proyectos y Sistemas, S.A.U. in liquidation (2)	100%	Gijón	Creation, design, calculation, basic engineering, detailed engineering, management, planning, computerisation, coordination, monitoring and control of projects in the oil, gas and petrochemical industry.
Duro Felguera Oil&Gas, S.A.U.	100%	Madrid	Research, development, manufacture, marketing, technical assistance, study and consulting in relation to equipment, electronic systems and software
Epicom, S.A.	100%	Madrid	Provision of operation and maintenance services for solar thermal power plants.
Operación y Mantenimiento Solar Power, S.L. (2)	60%	Madrid	Construction and assembly of industrial projects
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	All kinds of activities related to power generation through the full or partial use of wind and cogeneration energy sources.
Felguera Diavaz Proyectos México S.A. de C.V. (2)	50%	Mexico	Installation of electromechanical equipment for electricity plants.
Turbogeneradores del Perú, S.A.C.	100%	Peru	Construction, maintenance and supply of equipment for power stations.
Duro Felguera Argentina, S.A.	100%	Argentina	Construction, maintenance and supply of equipment for power stations.
Opemasa Andina, Ltda. (2)	100%	Chile	Engineering, supplies and civil works for energy projects.
Turbogeneradores de Venezuela C.A.	100%	Venezuela	Assembly of turbo-generators and auxiliary equipment in power stations.
Mopre Montajes de Precisión de Venezuela, S.A.	100%	Venezuela	Commercial project development
Duro Felguera Do Brasil Desenvolvimento de Projetos Ltda. (2)	100%	Brazil	Port terminals.
Felguera Grúas India Private Limited.	100%	India	Industrial engineering project consulting.
Duro Felguera Industrial Projects Consulting Co., Ltd. (2)	100%	China	Engineering, supply and construction projects for the mining, energy and industrial sectors.
PT Duro Felguera Indonesia	95%	Indonesia	Capital goods engineering
Duro Felguera Australia Pty Ltd.	100%	Australia	Engineering, supplies and civil works for energy projects.
Duro Felguera 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.
Felguera IHI Panamá, S.A. (2)	60%	Panama	Commercial project development
DF USA, LLC (2)	100%	United States	Construction of 313 CC Empalme II combined cycle plant in the state of Sonora (Mexico) under a tender from the Federal Electricity Commission (CFE).
Dunor Energía, S.A.P.I. de C.V. (1)	50%	Mexico	Construction of electricity generation buildings and plants.
Duro Felguera Saudi LLC (2)	50%	Saudi Arabia	



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Company	% ownership interest	Location	Activity
Felguera IHI Canadá INC (2)	60%	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
Duro Felguera Rail, S.A. U. (1)	20%	Mieres	Manufacture and assembly of railway equipment

(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.
UTE CGSI Asturias Lote 3	7.50%	Alcobendas	IT services related to a Computer Services Management Centre for the Asturias regional government, its agencies, companies and public bodies (Lot 3) - Security.
UTE CGSI Asturias Lote 4	10%	Alcobendas	IT services related to a Computer Services Management Centre for the Asturias regional government, its agencies, companies and public bodies (Lot 4) - Software Management.
Consorcio el Sitio (TGV-Y&V Ingeniería)	70%	Venezuela	Engineering, local supplies and construction of the Termocentro thermal power plant.
UTE DF Operaciones y Montajes, S.A. – Masa Operaciones Internacionales, S.L.	90%	Gijón	Execution of the "PTV-01 Contract Rehabilitation of steam turbine units Endesa Costanera" including all supplies and services required to achieve the objective and, especially, overall management and coordination of the project.



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ 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 2017 were approved at the Annual General Meeting held on 15 June 2018.

The consolidated financial statements for 2018 were prepared by the Board of Directors on 29 March 2019 and will be submitted for approval by the Annual General Meeting. It is expected that they will be approved without modification.

Key events in 2018

On 27 July 2018, the parent company successfully completed its financial debt restructuring and search for prospective investors for a capital increase of up to €125.7 million (Notes 16 and 22).

The conclusion of both processes was under the following terms:

a) Capital increase

On 27 July 2018, the capital increase was placed on file with the Asturias Companies Register for a total amount of €125,712 thousand through the issuance of 4,656,000,000 new ordinary shares of €0.01 par value each, of the same class and series as outstanding shares, and a share premium of €0.017 per share.

b) Financial restructuring

On 27 July 2018, once all the conditions precedent were satisfied, the refinancing agreement entered into on 21 June 2018 between the Company and its main financial institutions became effective.

The refinancing agreement affects a total amount of gross debt of €318,009,053.44, subject to the following conversion and restructuring:

- The conversion of part of the financial liability, for €90,736,373.89, into bonds convertible into newly issued ordinary shares of Duro Felguera, S.A. (the "Class A Convertible Bonds") with a maximum duration of five years and cancellation upon expiry if they are not converted. On 31 July 2018, the issue of Class A Convertible Bonds entailing the issuance of 9,073,637,389 bonds was placed on file with the Asturias Companies Register. Conversion of these convertible bonds is limited to a combined conversion of up to 6% of the Company's share capital.



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS

(€ thousand)

- The conversion of part of the financial liability, for €142,272,679.55, into bonds convertible into newly issued ordinary shares of Duro Felguera, S.A. (the “Class B Convertible Bonds”) with a maximum duration of five years and cancellation upon expiry if they are not converted. On 31 July 2018, the issue of Class B Convertible Bonds entailing the issuance of 14,227,267,955 bonds was placed on file with the Asturias Companies Register. These bonds can be converted as of the second year from the effective date and only when the Company’s 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) exceeds €236,000 thousand. They will be redeemed at maturity without any consideration to the holders of the convertible bonds. Conversion of these convertible bonds is limited to a combined conversion of up to 29% of the Company’s share capital post-conversion.

These conversions, at their effective date, resulted in the cancellation of the original financial liability for €233,009 thousand and, based on the valuation by an independent expert, the recognition of an equity instrument for the Class A Convertible Bonds for €8,093 thousand, and the recognition of a debt instrument at the fair value of the Class B Convertible Bonds for €8,069 thousand. This had a positive impact on the net financial result of €214,942 thousand (Note 22), net of transaction costs.

- Restructuring of the remaining financial liability, of €85,000,000, through a five-year syndicated loan for the same amount, with no repayments the first two years. The loan bears interest at the Euribor rate +2% the first two years and Euribor +3% the remaining years.
- The grant of new financing via establishment of a revolving bond and counter guarantee line for up to €100 million and the extension or rollover of the bonds issued by the signing credit institutions in the refinancing agreement. Each bond and counter guarantee issued against this new line was contingent on obtaining a guarantee by an insurance company, export credit agency or equivalent entity (for at least 50% of the nominal amount of the bond). In the fourth quarter of 2018, efforts went to securing this cover, resulting in the firm offer in December, as required in the refinancing agreement, so this requirement was met.

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.

On 1 December, José María Orihuela Uzal was hired as Chief Executive Officer, thereby separating the positions of Chairman and Chief Executive.

The Group also added a sales manager, a human resources manager, a financial director, and a contract management director. Two more managers are expected to be added soon: a management control director and a legal advisor specialising in international EPC contracts. The need for further reinforcements, essential in project management areas, is still being assessed.



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

In addition, the following management processes were reinforced with the assistance of independent experts: (i) Regulatory Compliance, (ii) Risk, (iii) Internal Control over Financial Reporting (ICFR), and (iv) Internal Audit.

After the capital increase was carried out, an independent technical consultant was engaged to conduct an initial review of the revenue and cost estimates of the main projects under way.

As a result of this review, as explained in the financial report as at 30 June 2018, authorised for issued in September 2018, provisions amounting to €29 million were set aside for a lower overall contract margin and other impairments amounting to €9 million were identified that had not been included in the strategic plan dated 13 June 2018.

As part of the FY 2018 close, a new review was carried out, this time of all revenue and cost estimates of ongoing projects and potential indications of impairment in customer receivables.

As a result of this new review, cost over-runs were uncovered in ongoing projects, mainly after reviewing the projects' technical specifications, offers to suppliers and extensions of terms. This led to a reduction in total income of approximately €81 million, of which €73 million were taken to profit or loss in 2018. New allowances were made mostly for four projects at varying stages of completion in Algeria, the Arab Emirates, Peru and Costa Rica (Note 26).

There were also indications of impairment on receivables amounting to approximately €37 million, in addition to those identified in the financial report as at 30 June 2018, concentrated in Argentina and Venezuela.

As explained in Note 41, on 1 March 2019, the Group was notified of the ruling handed down by the Singapore International Arbitration Centre regarding the arbitration between the Group and Samsung C&T Corporation over the Roy Hill project, with a positive impact on equity and profit for the year of €38 million.

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 2018 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.



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

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 2017, except for the adoption of IFRS 15 and IFRS 9, effective for the first time this year, which did not have a significant impact on the Group's accounting policies.

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

Going concern assumption

The Group had positive equity at 31 December 2018 of €8,518 thousand. In addition, the parent company's equity amounted to a positive €12,410 thousand (2017: €181,148 thousand).

Although the successful completion of the capital increase and the debt restructuring carried out in 2018 (Note 1) had a positive impact on the Group's equity of €340,505 thousand, exchange losses arising in the year (mainly in Argentina), coupled with the impact of the provisions and impairments explained in Note 1, as well as the impossibility of lodging the related claims in accordance with IFRS 15 (stricter requirements in the standard regarding the recognition of revenue from claims), left the parent company with positive equity at year-end 2018, but for an amount less than half of its share capital; i.e. €24,000 thousand. As a result, the parent company is in a situation of dissolution in accordance with article 363 e) of the Corporate Enterprises Act (Ley de Sociedades de Capital). Accordingly, the directors have a period of two months to call a General Meeting to adopt a resolution of dissolution or the necessary agreements to remedy the cause.

Moreover, based on the review performed at the end of the year of certain projects in progress (Note 1), the updated cash forecasts indicate a need for additional financing for 2019 and 2020 so that the projects can be completed. As a result, the directors of the parent company's updated cash forecasts consider, among other things, the need to raise an additional €60 million in 2019.

Mitigating factors

The directors may submit a proposal to the General Meeting for a capital reduction in the amount necessary to remedy the cause of article 363 e).



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

The Group is in talks with and has claims in progress against several customers, for a total of €95 million at different stages. These were not recognised in the consolidated financial statements because they did not meet the requirements of IFRS 15 due to uncertainty at the reporting date. This standard, which became effective on 1 January 2018, is stricter than the previous standard (IAS 11) regarding the recognition of revenue from claims as it requires approval by the customer (IFRS 15 p.18) compared to criteria of probability of IAS 11 (IAS 11 p.13). Success in the ongoing negotiations and claims in 2019 would have a positive impact on consolidated equity.

The balance of cash and cash equivalents at 31 December 2018 was €103 million (Note 15), with net financial debt of €3 million and a debt ratio of 29% (Note 3.1 c). The Group is also in conversations with financial institutions and customers to find new sources of financing (Note 3.1 c) that would provide it with an adequate debt structure to meet its liquidity requirements and payment obligations in the normal course of operations. However, these conversations are in the early stages.

The parent company is taking all the necessary measures and actions to comply with the milestones described previously. Therefore, the directors have prepared the consolidated financial statements on a going concern basis, considering the favourable outlook for delivering its cash forecasts and the actions undertaken to restore equity.

Changes in accounting policies and disclosures

- a) Mandatory standards, amendments and interpretations applicable to annual periods beginning on or after 1 January 2018.
- **IFRS 15 Revenue from Contracts with Customers and Clarifications to IFRS 15 Revenue from Contracts with Customers:**

IFRS 15 has replaced the following standards as of 1 January 2018:

- IAS 18 Revenue
- IAS 11 Construction Contracts
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 18 Transfers of Assets from Customers
- SIC- 31 Revenue - Barter Transactions Involving Advertising Services

According to IFRS 15, revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. Revenue is recognised by applying the following five steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.



DURO FELGUERA, S.A. AND SUBSIDIARIES

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The Group's core business 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.

Turnkey contracts entail execution of major works, including plant design, the purchase of assets for subsequent installation at the customer's location and start-up. These contracts are considered to be a single performance obligation, as contract modifications affect all components.

IFRS 15 was applied from 1 January 2018 without restating comparative information for 2017. Its first-time application had no impact.

a) Sale of goods

The impact of this standard on the Group's profit or loss is not significant for contracts with customers in which the sale of equipment is generally expected to be the only performance obligation since the Group recognises revenue when the risks and rewards of ownership of the asset are transferred, which is the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. In any event, this activity is residual for the Duro Felguera Group.

b) Rendering of services

Services provided by the Group include design, supply of materials, installation and start-up of major turnkey industrial projects. These services include the supply of equipment that Duro Felguera acquires as capital, or occasionally the customer acquires the equipment and Duro Felguera designs the project, installs the equipment and commissions the industrial project. Irrespective of whether the equipment is acquired by the customers or by Duro Felguera, revenue recognition is the same.

The Group was already accounting for these services as a single service, so there were no changes in recognition under IFRS 15 since it concluded that these services constitute a single performance obligations, because the design, as well as installation, start-up and, where agreed with the customer, the supply of materials and equipment acquired from third parties, are inter-related and all complement or in some cases modify each other.

The Group also recognises service revenue by reference to the stage of completion. Under IFRS 15, measurement is based on the proportion that expected costs incurred bear to estimated total costs (input method). There is no difference to the recognition method followed under the previous standard.

Specifically, for supplies of materials acquired from third parties (stockpiles) whose cost may account for a large proportion of total expected costs, to prevent any distortion in the margin from considering these costs, the Group uses technical accounting that measures the stage of completion in expected labour hours, and financial accounting that measures the costs incurred relative to expected costs, checking at each reporting date that there are no significant differences between the two measurements.



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Considering the complexity of the projects and control of costs incurred as a proportion of expected costs, at each reporting date the Group reassesses its forecasts of pending costs and compares costs incurred with initially expected costs so the measurement of the stage of completion is updated with actual costs incurred. Changes from original estimates are adjusted when known, the same as contract modifications that do not include new goods or services, which is consistent with the approach used until now.

The Group concludes that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Moreover, DF's main contracts entail the execution of plants or specific equipment. Therefore, in virtually all of its contracts, the assets do not have an alternative use, or if they do, the costs of adaptation of the asset to the alternative use is extremely high. In addition, the contracts signed by DF include indemnity clauses for termination, whereby the customer pays DF the price stipulated in the contract for the work performed up to the date of termination.

Consequently, under IFRS 15 the Group continues to recognise revenue for these service contracts over time rather than at a point of time.

In addition, in rendering services contracted for the installation of large industrial complexes, the Group assessed the following issues of IFRS 15:

(i) Variable consideration

For revenue from contract modifications, IFRS 15 requires approval by the customer (IFRS 15 p. 18), which is stricter than the probability requirement in IAS 11 p. 13 and IAS 18, p. 18.

For transactions subject to variable consideration, the new standard requires entities to recognise revenue for the transaction at an amount at which it is highly probable that a significant reversal will not occur when the uncertainty associated with the variable consideration is subsequently resolved (IFRS 15 p. 56-58). Transactions with elements of variable consideration include revenue from claims submitted by customers and contractual incentives which, under the previous standard, were recognised based on criteria of probability (IAS 11 p.14 and p.15).

Contracts signed by the Group with third parties contain penalty clauses for delays in the delivery of committed projects.

These penalties are considered variable consideration and under IFRS 15 an estimate must be made of their amount for inclusion in the expected selling price. The estimate must be based on management's best judgement and historical experience.

The Group has a limited history of delays, except for circumstances not attributable to its performance, so application of IFRS 15 in this respect has not had a significant impact on its financial statements.

In the Group's activity, there are also deviations in expected costs, which are negotiated with customers so that they are remunerated. In this respect, if revenue cannot be reliably measured (under negotiations with the customer), the Group defers revenue recognition until the uncertainty is resolved, as it has done until now.



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(ii) Warranty obligations

The Group generally provides warranties for installations, which are standard, and does not provide extended warranties in its contracts with customers. As such, most existing warranties under IFRS 15 continue to be accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as until now.

c) Advances received from customers

The Group may receive short-term advances from its customers, which are presented as part of “Trade and other payables”.

Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts. However, the Group decided to use the practical expedient provided in IFRS 15, and will not adjust the promised amount of the consideration for the effects of a significant financing components in the contracts, where the Group expects, at contract inception, that the period between the Group transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, for short-term advances, the Group will not account for a financing component even if it is significant.

In addition, based on the nature of the goods and services offered and the purpose of payment terms, the Group determined that for the majority of the contracts that require customers to pay long-term advances, the payment terms were structured primarily for reasons other than the provision of finance to the Group, i.e. advances are generally required from new customers, as well as customers with a history of late payments.

d) Costs incurred to obtain or fulfil a contract

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 the contract will be awarded to the Company. This is largely consistent with the previous approach.

In this respect, the Group has kept the existing information systems, adapting their controls to the new standard.

- **IFRS 9 *Financial Instruments***

IFRS 9 *Financial Instruments* replaces IAS 39 from this year. The main changes affect the classification and measurement of financial assets and liabilities, the impairment model of financial assets and hedge accounting.

IFRS 9 was applied from 1 January 2018 without restating comparative information for 2017. Its first-time application had no impact.

Application of IFRS 9 has not had any significant impact on the balance sheet and equity except for the effect of applying the impairment requirements.



DURO FELGUERA, S.A. AND SUBSIDIARIES

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a) Classification and measurement

Application of the standard by the Group has not entailed significant changes in its balance sheet or net equity for applying the classification and measurement requirements of IFRS 9. It continues measuring at fair value all financial assets previously measured at fair value. The Group's quoted equity shares held as available-for-sale financial assets are measured at fair value through profit or loss rather than other comprehensive income (OCI), which increases the volatility of earnings. However, given their amount, the impact is not significant. Debt securities are measured at fair value through OCI under IFRS 9 as the Group expects not only to hold the assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Group applies the option to present fair value changes in OCI. Therefore, application of IFRS 9 has not had a significant impact.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

Reconciliation of the classification and measurement of financial assets under IAS 39 and IFRS 9 at the first-time application:

Type of instrument	Classification at 31.12.2017 (IAS 39)	Classification at 01.01.2018 (IFRS 9)
Other financial assets - Trade and other receivables	Loans and receivables	Amortised cost
Available-for-sale financial assets	Available-for-sale financial assets	Fair value through OCI

Application of IFRS 9 did not have a significant impact on financial liabilities.

b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. As noted, the Group applies the simplified approach and records lifetime expected losses on all trade receivables. The expected increase in the loss allowance for the Group is limited, considering the impairment recognised in 2017 on the accounts in Venezuela and the because most of its receivables are with highly solvent customers. Accordingly, the initial impact of adopting IFRS 9 on the consolidated financial statements has not been significant.

c) Hedge accounting

The Group determined that all existing hedge relationships, which are currently designated in effective hedging relationships, can continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, application of the hedging requirements of IFRS 9 has not had a significant impact.



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d) Debt restructuring

The Group did not restructure debt before. So, the impacts arising in this respect from applying IFRS 9 did not have any effect on the accompanying consolidated financial statements. However, at the date of authorisation for issue, as noted above, the debt restructuring process was completed successfully.

Other amendments and/or interpretations approved by the European Union and effective from 1 January 2018

- Annual Improvements to IFRS Standards 2014-2016 Cycle: Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investments in Associates and Joint Ventures*.
- Amendment to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*
- Amendments to IAS 40 *Transfers of Investment Property*
- Amendment to IFRS 4 *Insurance Contracts*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

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

b) Standards, interpretations and amendments to standards issued that have not become effective and have not been adopted early by the Group

The Group intends to adopt the standards, interpretations and amendments issued by the IASB that are not mandatory in the European Union at the date of authorisation for issue of the accompanying consolidated financial statements when they become effective, if applicable to it. Although the Group is currently assessing their impact, based on the analysis performed to date, the Group estimates that their initial application will not have a significant impact on the consolidated financial statements, except for the following the standards, interpretations and amendments to standards issued

- **IFRS 16 Leases**

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard may be applied early and applied with full retrospective effect or using a modified retrospective approach.

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.



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Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

In 2018, the Group assessed the potential impact on its consolidated financial statements and elected not to early adopt IFRS 16. The Group will apply the exemptions proposed in the standard to leases with a lease term of 12 months or less from the date it first applies the standard and for leases for which the underlying asset is of low value. The Group's main 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.

- **Amendments to IFRS 9 *Prepayment Features with Negative Compensation***

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

- c) 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 this note

At the date of preparation of the consolidated financial statements for the year ended 31 December 2018, the IASB and IFRIC had issued the following standards, amendments and interpretations that are pending adoption 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*

IFRIC 23 *Uncertainty over Income Tax Treatments*

Amendments to IAS 28 *Long-term interests in associates and joint ventures*

Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*

Annual improvements to IFRSs 2015 - 2017 Cycle

- IFRS 3 *Business Combinations*
- IFRS 11 *Joint Arrangements*
- IAS 12 *Income Taxes*
- IAS 23 *Borrowing Costs*

The Group is currently analysing the potential impacts of the new standard 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.



DURO FELGUERA, S.A. AND SUBSIDIARIES

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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.



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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:



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- 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 2018 in the consolidation scope were as follows:

	Additions
GROUP	Tanques de Cartagena, S.A.
UTES	-

Additions to the scope of consolidation related to the incorporation of companies in 2018.

	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.
ASSOCIATE	MDF Tecnogás, S.L.



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Disposals

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.

The main movements in 2017 in the consolidation scope were as follows:

Additions

GROUP

DF Canada Ltd

UTES

-

Additions to the scope of consolidation in 2017 related to the incorporation of, or acquisition of interests, in the companies.



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Disposals

GROUP

Duro Felguera UK Limited
Pontonas del Musel, S.A.
Eolian Park Management, S.A.
Secicar, S.A.
Conaid Company, S.R.L.
Estudios e Ingeniería Aplicada XXI, S.A.

UTES

UTE Núcleo Seguridad Satec TRCI

The impact of these changes in the consolidation scope on equity and consolidated profit or loss was not significant in 2017.

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.



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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 2.3 d), Argentina was classified as a hyperinflationary economy in 2018. The inflation rates used (IPIM: internal wholesale price index) to prepare restated information are published by the INDEC, based on the following indices.

- From Jan-95 to Oct-15 and Jan-16 to Dec-16, the National IPIM (internal wholesale price index);
- Nov-15 and Dec-15, the CPI of CABA
- From Jan-17 to present, the national CPI

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.d) is followed.



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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 case 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 2018 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.



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d) Hyperinflationary economies

Argentina

Inflation in Argentina has risen sharply since the second quarter of 2018. This, coupled with other factors surrounding the Argentine economy, have prompted Duro Felguera to re-evaluate how it translates its investees' financial statements. These factors include the inflation rate reached in May 2018 (with cumulative inflation over the previous three years in consumer and wholesale price indices of over 123% and 119%, respectively) and the sharp depreciation of the Argentinian peso from May 2018.

As a result, according to IFRSs, Argentina is considered a hyperinflationary economy in 2018. The main implications of this are:

- No restatement of the 2017 figures.
- Adjustment of the historical cost of the non-monetary assets and liabilities and the various items of equity of these companies 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. The cumulative impact of the accounting restatement to adjust for the effects of hyperinflation in periods prior to 2018 is shown in translation differences at the beginning of 2018.
- Adjustment of the income statement to reflect the financial loss caused by the impact of inflation in the year on net monetary assets (loss of purchasing power).
- Adjustments 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 2018 was 43.29 Argentine pesos per euro.

The inflation rate considered for this calculation in 2018 was 47.6%. This is based on information published by the Argentine National Institute of Statistics and Censuses (INDEC), a public body, through publication of the consumer price index that measures the changes in prices of goods and services that are representative of household expenditure.

The Group does not have any significant fixed assets in Argentina, so the impact of hyperinflation at 1 January 2018 was not significant. The impact was recognised in exchange differences.



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The main impacts on the Duro Felguera Group's consolidated financial statements for the year ended 31 December 2018 arising from the above were as follows:

	<u>€ thousand</u>
Revenue	6,934
Operating profit/(loss)	584
Profit/(loss) for the year from continuing operations	2,488
Accumulated exchange differences	(1,866)
Impact on equity	622

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:

	<u>Years of estimated useful life</u>
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.



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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.



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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. Impairment of non-financial assets

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).



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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



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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.



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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.



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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.



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2.12. Derivative financial instruments and hedging activities

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".



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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.



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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 cost.

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.



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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.



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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.



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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 1.28% p.a. (2017: 1.24%) and consumer prices indices reflecting an increase of 1% p.a. (2017: 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 1.28% p.a. (2017: 1.24% p.a.).

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. Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the Company receives services from employees as consideration for equity instruments of the Group. Under the terms of the plan, grants are not irrevocable.

The Group measures the goods and services received, and the resulting increase in equity, directly at fair value, unless such fair value cannot be reliably estimated. When the Group is unable to reliably estimate the fair value of the goods or services received, their value and the related increase in equity are measured indirectly by reference to the fair value of the equity instruments awarded.



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2.23. 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.

2.24. 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, using the same method as for construction contracts described below.



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c) Construction contracts

Contract costs are recognised as an expense in the period in which they are incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. At 31 December 2018 and 2017, in none of the projects was it considered that the outcome cannot be estimated reliably.

When the outcome of a construction 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 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

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.



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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.

2.25. Leases

a) When a Group company is lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised at the commencement of the least at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is apportioned between finance charges and reduction of the lease liability, so as to achieve a constant rate of interest on the remaining balance of the liability. The rental obligations arising from the lease, net of finance charges, are included in non-current payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease is depreciated over the shorter of the useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and rewards incidental to ownership of the leased item are classified operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

b) When a Group company is lessor

When assets are leased under finance lease, the present value of the lease payments is recognised as a financial receivable. The difference between the gross amount receivable and the present value of that amount is recognised as the financial return on capital. Lease revenues are recognised over the lease period in accordance with the net investment method, which reflects a constant periodic rate of return.

Assets leased to third parties under operating lease contracts are included in property, plant and equipment in the balance sheet. These assets are depreciated over their estimated useful lives using criteria applied to similar assets owned by the Group. Lease income is recognised on a straight-line basis over the lease term.



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2.26. 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.

2.27. 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.

2.28. 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

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) and Indian rupee (INR). Foreign currency risk arises on future commercial transactions, recognised assets and recognised liabilities.



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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.

At 31 December 2018, if the euro had weakened by 5% against the USD, with all other variables held constant, post-tax profit for the year would have been €736 thousand higher (2017: €628 thousand higher), whereas if it had strengthened by 5%, post-profit for the year would have been €666 thousand lower (2017: €568 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 dollars, and the effect of the stage of completion at year end.

At 31 December 2018, if the euro had weakened by 5% against the AUD, with all other variables held constant, post-tax profit for the period would have been €4,102 thousand lower (2017: €3,230 thousand), whereas if it had strengthened by 5%, post-profit for the period would have been €3,712 thousand higher (2017: €3,570 thousand), mainly as a result of foreign exchange gains/losses on 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.

To minimise the effect of future cost increases for these reasons, the Group includes a scaled price review in contracts of this kind pegged to consumer price indices, as in the case of its contracts in Venezuela and Argentina.

Since the commencement of the projects to 31 December 2018, income from the projects in question have risen by €315 million (2017: €315 million) as a result of the price increases linked to consumer price indices, which also affected project costs.

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



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(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 would be an increase/decrease of €86 thousand (2017: €-255 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 (Note 13) 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 represent 62% of "Trade and other receivables" at 31 December 2018 (2017: 57%), 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.

The balance in trade receivables past due but not impaired at 31 December 2018 was €98,303 thousand (2017: €98,417 thousand).



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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 monitors the forecasts for the Group's liquidity reserves based on estimated cash flows. The completion of the financial restructuring and capital increase explained in Note 1 has resulted in:

- A cash inflow of €125.7 million from the capital increase
- A reduction in financial debt of €225 million after its conversion into convertible bonds, which will not imply any cash outflow for their redemption

In addition, the Group continued to dispose of non-core assets in 2018 to bolster its liquidity. In February, it concluded the sale of the Vía de los Poblados and Las Rozas office buildings (Note 6) for €27.4 million, giving rise to a net cash inflow of €6.5 million after cancellation of the related financial debt of €20.9 million. It also sold 100% of subsidiary Núcleo de Comunicación y Control, S.L. and 80% of Duro Felguera Rail, S.A., respectively, resulting mainly in a cash inflow of €13.6 million and a reduction in financial debt of €5.9 million (Note 6).

To execute its projects, the Group is talks with customers and financial institutions to secure additional liquidity of €60 million through advances from the customers or cash injections. The cash forecast, based on conservative assumptions, includes the effects of these negotiations. It does not consider short-term inflows from the Termocentro project given the level of political uncertainty at present, or significant net amounts from ongoing litigation in India given the length of arbitration proceedings.

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

	<u>2018</u>	<u>2017</u>
Borrowings and derivatives (Notes 6, 13 and 22)	(106,576)	(362,460)
Less: Cash and cash equivalents (Note 15)	<u>103,097</u>	<u>90,579</u>
Net financial debt	(3,479)	(271,881)
Undrawn credit lines (Note 22)	<u>-</u>	<u>456</u>
Total liquidity reserves	<u>(3,479)</u>	<u>(271,425)</u>



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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 undiscounted cash flows:

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 (Notes 6 and 22)	6,695	2,129	88,283	1,400
Convertible bonds (Note 22)	-	-	8,069	-
Trade and other payables (Note 23)	365,384	-	-	-

At 31 December 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Loans and finance lease liabilities (Notes 6 and 22)	289,254	67,133	5,307	1,816
Trade and other payables (Note 23)	418,168	-	-	-

The amounts disclosed in the preceding table are the contractual discounted cash flows, 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.



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The gearing ratios at 31 December 2018 and 2017 were as follows (€ thousand):

	<u>2018</u>	<u>2017</u>
Borrowings and derivatives (Notes 6, 13 and 22)	(106,576)	(362,460)
Less: Cash and cash equivalents (Note 15)	<u>103,097</u>	<u>90,579</u>
Net financial debt	(3,479)	(271,881)
Equity	<u>8,518</u>	<u>(164,846)</u>
Capital and net financial debt	<u>11,997</u>	<u>107,035</u>
Gearing ratio	29.00%	254.01%

As explained in Note 22, the Group loan is subject to compliance with the following debt ratio (gross financial debt/ EBITDA) as from the year ended 31 December 2018:

Date	Multiple
31 December 2019	6.27x
30 June 2020	3.20x
31 December 2021	1.54x
30 June 2022	1.14x

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)



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The following table presents the Group's assets and liabilities measured at fair value at 31 December 2018.

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Available-for-sale financial assets:				
- Equity securities	2	4,449	-	4,451
Hedging derivatives	-	-	-	-
Total assets	2	4,449	-	4,451

Liabilities

Liabilities at fair value through profit or loss:

- Trading derivatives	-	-	-	-
- Convertible bonds	-	8,069	-	8,069
Hedging derivatives	-	-	-	-
Total liabilities	-	8,069	-	8,069

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2017.

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Available-for-sale financial assets:				
- Equity securities	3	5,587	-	5,590
Hedging derivatives	-	1,052	-	1,052
Total assets	3	6,639	-	6,642

Liabilities

Liabilities at fair value through profit or loss:

- Trading derivatives	-	-	-	-
Hedging derivatives	-	2	-	2
Total liabilities	-	2	-	2

The fair value of financial instruments traded in active markets (such as securities held for trading and 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.



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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. The difference between fair value and amortised cost is not significant.

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 (Note 9).

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.



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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 €370 thousand in the income tax liability (2017: €5,309 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.



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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 recognises revenue based on the percentage-of-completion method. The stage of completion is calculated as the portion that contract costs incurred bear to the estimated total contract costs. 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 the percentage-of-completion 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 the percentage-of-completion 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 2018 the Group recorded a provision for penalties of €5,437 thousand (2017: €5,558 thousand).

Regarding the Vuelta de Obligado project, pursuant to the contract terms, the Group recognised claims included in the selling price amounting to €47.3 million (initial value), related to ARP 430 million plus interest up to 2017 at Banco de la Nación Argentina's asset rate of 24.66%. The total amount of claims submitted at the closing rate was €76 million (ARP 3,302 million), filing an arbitration with the customer.



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The arbitration is currently suspended. The original period of suspension ran until 28 May 2018 after the request was approved by the Arbitration Court on 14 August 2017, with DF Argentina expressing its conformity on 19 September 2017. For this, DF Argentina and General Electric signed Conditional Supplemental Agreement II, which ensures the continuation of the arbitration action on behalf of the latter against CVO for at least ARP 430 million plus interest and finance charges, which at the date of the agreement amounted to ARP 779 million. However, this will be updated at the date of collection by DF Argentina in accordance with the transactional agreement between the parties. Subsequently, following certification by the customer on 23 February 2018 that the plant had come fully on stream, on 18 June 2018 the parties agreed to extend the suspension until 15 September 2018, which has since been extended to 15 March 2019. During the latest round of negotiations between General Electric and the customer, notification was given from the customer of the claims that General Electric would be willing to assume and that it would not file a counter-claim against DF Argentina if the parties cease to continue the arbitration under way, which is currently suspended. The new situation arising from the latest negotiations, coupled with an opinion from the external lawyers on 28 February 2019, cast doubt over the outstanding amount not recognised by the customer. Therefore, the Group recognised an impairment of the asset for €16,557 thousand as there were doubts regarding recoverability.

On 11 March 2019, a new request for suspension until 15 May 2019 was sent to the court together with the customer.

At 31 December 2018, there were no amounts invoiced and receivable from CVO.

In addition, claims for the Djelfa project amounting to €22.6 million were recognised in relation to contractual costs incurred for the extension of the deadline caused and recognised formally by the customer. Of this amount, the portion related to the recognised stage of completion of the project, of €13.9 million, was recognised as revenue.

The claim was recognised in the second quarter of 2017, in accordance with the following time line of events:

- On 2 April 2017, the customer notified, in writing, its express recognition of the delay of 18 months, 100% attributable to it.
- As a result of this notification, the Company assessed and presented the customer with a claim for approximately €53 million for the excess costs related to the 18-month delay.
- On 27 August 2017, the customer confirmed receipt of the claim and its assessment.
- The cost claim was not approved by the customer in writing. However, there are certain items of the claim that are required under the contract and must be maintained through the contractually agreed dates. Therefore, the delay confirmed and approved by the customer extends those items by an additional 18 months. Acceptance did not result in any dispute by the customer, so the amounts are considered to be fully recoverable. These items relate to the costs of guarantees, the letter of credit, the base camp and storage of the turbines provided by the customer.



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At 31 December 2018, invoiced amounts receivable from Djelfa amounted to €6,639 thousand, of which €5,311 thousand have been collected to date.

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 presented is concentrated in the Energy and Mining & Handling segments. The product consists of the 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.

At the beginning of 2012, Duro Felguera reorganised all its Oil & Gas activities, grouping them into a segment in order to maximise internal synergies among Group subsidiaries and improve efficiency in the development of turnkey projects for the oil/gas/petrochemical sector, a priority growth area for the Group, especially on the international front.

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, left over from the former business approach and after the sale of 80% of subsidiary Duro Felguera Rail, S.A (Note 6), the Group has a production workshop, grouped included in the Manufacturing segment herein. This line operates in the manufacture of pressure vessels, heavy boilers and research laboratory equipment.



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(€ thousand)

Segment information provided to the Board of Directors for the reported segments 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

Segment information at 31 December 2017 is as follows:

	€ thousand							
	Energy	Mining & Handling	Oil & Gas	Specialised Services	Manufacturing	Other	Inter-group transactions	GROUP
Revenue from external customers (Note 27)	284,842	85,909	45,163	144,417	43,293	20,502	-	624,126
Inter-segment revenue	228	551	1,435	10,007	-	29,883	(42,104)	-
Total revenue	285,070	86,460	46,598	154,424	43,293	50,385	(42,104)	624,126
Interest income (Note 31)	1,019	394	167	182	5	(87)	-	1,680
Interest expense (Note 31)	(4,056)	(730)	(1)	(68)	(252)	(5,155)	-	(10,262)
Exchange differences (Note 31)	(4,833)	531	827	(1,881)	(927)	(3,755)	-	(10,038)
EBITDA	(53,047)	(57,888)	(38,521)	7,644	(8,737)	(22,483)	-	(173,032)
Profit/(loss) before tax	(56,244)	(58,303)	(40,610)	7,416	(12,018)	(58,364)	-	(218,123)



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The amounts included in “Other” relate to income and/or expenses related to companies not allocated to any business area, mainly corporate activities and engineering and systems integration, as well as the proceeds from the financial restructuring (Note 31).

“Inter-group transactions” details inter-segment eliminations and adjustments.

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

	€ thousand	
	2018	2017
Operating profit/(loss)	(131,760)	(194,797)
Depreciation and amortisation (Notes 7.8 and 9)	8,052	10,264
Impairment and losses (Note 30)	17	21,539
Exchange differences (Note 31)	(705)	(10,038)
Net carrying amount	(124,396)	(173,032)

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 Group has the ability to operate internationally, and in fact, some of these contracts are executed outside Spain. The following table presents the breakdown of revenue at the year-end by the geographical distribution of the entities generating the revenue as presented to the Board of Directors:

Geographical area	€ thousand			
	2018	%	2017	%
- Spain	39,976	9.49%	60,343	9.67%
- Latin America	149,209	35.41%	273,093	43.76%
- Europe	150,785	35.79%	118,215	18.94%
- Africa and the Middle East	64,531	15.32%	148,060	23.72%
- Asia Pacific	9,370	2.22%	21,961	3.52%
- Other	7,454	1.77%	2,454	0.39%
Total	421,325	100%	624,126	100%

In 2018, the Energy segment recorded sales totalling €76.7 million with a customer that, individually, represented over 10% of the Group's revenue (2017: two customers amounting to €80.8 million and €65 million, respectively). The Mining & Handling segment recorded sales of €59.9 million with a customer that, individually, represented over 10% of the Group's revenue (2017: the Specialised services segment recorded sales of €75.6 million with a customer which, individually represented over 10% of the Group's revenue).

In the year ended 31 December 2018, revenue from significant external customers in Algeria, Mexico and Romania amounted to €46.8 million, €84.7 million and €76.7 million, respectively (2017: €90.4 million, €88 million, €84.7 million and €80.8 million in Algeria, Argentina, Mexico and Romania, respectively).



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6. Assets and liabilities classified as held for sale

Breakdown of non-current assets and liabilities held for sale:

	€ thousand	
	31/12/2018	31/12/2017
Assets		
Property, plant and equipment	4,254	27,395
Assets held for sale	4,254	27,395
Liabilities		
Current financial debt	-	(20,861)
Liabilities associated with assets held for sale	-	(20,861)
Net assets directly associated with the disposal group	4,254	6,534

At 31 December 2018, assets classified as held for sale related to a hydrocarbon storage plant in Cartagena. At 31 December 2017, they related to the Vía de los Poblados office building in Madrid acquired on 29 May 2014 and the office building in Las Rozas. These assets are stated at their selling price less costs of disposal, resulting in impairment of the assets of €3,915 thousand in 2017. Borrowings associated with assets classified as held for sale amounted to €20,861 thousand and related entirely to the lease of the Vía de los Poblados building.

On 27 February 2018, these buildings were sold for the same amounts included in this Note. The related lease was cancelled, resulting in a reduction in the related borrowings of €20,861 thousand.

In addition, under the scope of the non-core asset disposal plan announced by the Group, in 2018 subsidiaries Duro Felguera Rail, S.A. and Núcleo de Comunicación y Control, S.L. were reclassified as disposal groups held for sale. At the date of the consolidated financial statements, these disposals had been concluded, entailing the sale of 100% of Núcleo de Comunicaciones y Control, S.L. and 80% of Duro Felguera Rail, S.A, respectively. These disposals had a negative impact of €2.4 million, which was recognised in these consolidated financial statements, and resulted mainly in a cash inflow of €13.6 million and a reduction in net financial debt of €5.9 million.

The income and expenses generated by these companies up to the date of loss of control were classified in the consolidated income statement according to their nature.



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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 2017	74,211	30,157	6,972	654	2,184	114,178
Cost	83,574	75,390	22,468	654	13,371	195,457
Accumulated depreciation	(9,363)	(44,225)	(15,462)	-	(11,178)	(80,228)
Impairment losses	-	(1,008)	(34)	-	(9)	(1,051)
Carrying amount	74,211	30,157	6,972	654	2,184	114,178
Additions	57	1,625	80	165	44	1,971
Disposals	(34)	(7,141)	(2,512)	(392)	(227)	(10,306)
Other movements	-	48	201	(221)	-	28
Transfers to non-current assets held for sale	(32,263)	-	-	-	-	(32,263)
Depreciation	(1,357)	(3,216)	(838)	-	(654)	(6,065)
Elimination of depreciation	7	5,403	2,391	-	66	7,867
Other depreciation movements	940	181	46	-	108	1,275
Provisions for impairment	-	-	-	-	(2)	(2)
Reversal of impairment losses	-	8	6	-	-	14
Balance at 31 December 2017	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
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



DURO FELGUERA, S.A. AND SUBSIDIARIES

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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).

In the first half of 2017, under the scope of the non-core asset disposal plan and having complied with the requirements in prevailing accounting regulations, the office building in Madrid acquired on 29 May 2014 was reclassified to non-current assets held for sale (Note 6).

a) Property, plant and equipment under construction

There were no significant additions in 2018 and 2017.

b) Own work capitalised

In 2018, the Group did not capitalise any labour and sundry materials costs for work on its own assets (2017: €524 thousand) under "Other gains/(losses) net" (Note 30).

c) Property, plant and equipment subject to guarantees

At 31 December 2018, there were items of property, plant and equipment amounting to €2,177 thousand in guarantee of agreements for suspension of the assessments of VAT, personal income tax and income tax-related party transactions (Note 32).

At 31 December 2017, certain items of property, plant and equipment had been provided as security for mortgage debts, with an outstanding amount at that date of €5 thousand.

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 Group included a facility leased from third parties under "Technical installations" with the following carrying amounts:

	€ thousand	
	2018	2017
Cost-capitalised operating leases	-	12,414
Accumulated depreciation	-	(7,540)
Net carrying amount	-	4,874

The income statement in 2018 includes €0 of lease rentals (2017: €458 thousand) under "Revenue".

The consolidated income statement also included operating lease expenses under "Operating expenses" relating mainly to leased machinery and assembly equipment for €4,862 thousand (2017: €5,500 thousand).



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

f) Subsidised assets.

The net carrying amount of subsidised assets at 31 December 2018 was €21,833 thousand (2017: €26,657 thousand).

g) Fully depreciated assets.

At 31 December 2018, there were fully depreciated assets still in use amounting to €24,876 thousand (2017: €33,928 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.

In 2018, impairment losses amounting to €17 thousand were recognised (2017: €2 thousand).



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NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

8. Investment properties

The movements in items composing “Investment properties” are as follows:

	€ thousand		
	Land	Buildings	Total
Balance at 1 January 2017	22,256	10,485	32,741
Cost	23,049	26,795	49,844
Accumulated depreciation	-	(14,166)	(14,166)
Impairment losses	(793)	(2,144)	(2,937)
Carrying amount	22,256	10,485	32,741
Depreciation	-	(405)	(405)
Disposals	(114)	-	(114)
Transfers - cost	(2,132)	(3,414)	(5,546)
Transfers - depreciation	-	724	724
Balance at 31 December 2017	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

Investment properties mainly include land in the municipalities of Langreo and Oviedo (Asturias), of which €1 million (2017: €1 million) correspond to plots zoned as rural estates located in various areas of the Langreo municipality, €14.7 million (2017: €9.9 million) to industrial plots and developable land, and €8.1 million (2017: €17.8 million) to buildings in Gijón, Oviedo and La Felguera.

The transfer in the year related to land and warehouses in Llanera of Tedesa.

At year-end 2018, the fair value of the investments, as appraised by an independent expert valuer (Note 7.h) stood at €39,670 thousand (2017: €35,480 thousand).

This item includes the following amounts for which the Group is lessee under a finance lease, in line with the operation described in Note 7.e):

	€ thousand	
	2018	2017
Cost-capitalised finance leases	-	9,937
Accumulated depreciation	-	(1,778)
Net carrying amount	-	8,159



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These amounts related to the land and buildings acquired under the finance lease arranged on 2 August 2007 between Santander de Leasing, S.A., E.S.C. (lessor) and Duro Felguera, S.A. (lessee) relating to various properties owned by the former (offices in c/ Rodríguez Sampedro, 5, in Gijón, and c/ González Besada, 25, c/ Marqués de Santa Cruz, 14 and c/ Santa Susana, 20, in Oviedo), which until then were leased to Duro Felguera, S.A. from Hispamer Renting, S.A. (former owner) under an operating lease. On 26 September 2018, Duro Felguera, S.A. exercised its call option (Note 22).

In 2018, operating expenses related to these investments amounting to €116 thousand were recognised in the consolidated income statement (2017: €116 thousand).

a) Investment property subject to guarantees

At 31 December 2018, there were items of investment property amounting to €14,913 thousand guaranteeing agreements for suspension of the assessments of VAT, personal income tax and income tax-related party transactions (Note 32).



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS
(€ thousand)

9. Intangible assets

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

	€ thousand					Total
	Goodwill	Development	Computer software	Construction in progress and advances	Other assets	
Balance at 1 January 2017	15,599	7,519	15,015	146	92	38,371
Cost	15,599	16,514	23,346	146	259	55,864
Accumulated amortisation	-	(8,995)	(8,331)	-	(167)	(17,493)
Carrying amount	15,599	7,519	15,015	146	92	38,371
Additions	-	2,212	67	315	-	2,594
Other movements	-	-	233	(233)	-	-
Disposals	-	(10,356)	(8)	-	-	(10,364)
Amortisation	-	(1,427)	(2,353)	-	(14)	(3,794)
Elimination of amortisation	-	4,675	5	-	-	4,680
Impairment loss	(12,313)	-	-	-	-	(12,313)
Balance at 31 December 2017	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
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
Other movements	-	-	-	-	-	-
Disposals	-	(29)	-	-	-	(29)
Transfers to non-current assets held for sale (cost)	-	(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)	-	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



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

a) Fully amortised assets

At 31 December 2018, there were fully amortised assets still in use amounting to €9,456 thousand (2017: €15,022 thousand).

b) Own work capitalised

In 2018, the Group capitalised labour and sundry materials costs for work on its own assets amounting to €537 thousand (2017: €1,849 thousand) under "Other gains/(losses) net" (Note 30).

c) Goodwill

At 31 December 2018, intangible assets included goodwill of €3,286 thousand (2017: €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 9.45% (2017: 7.28%).

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.

Goodwill of Epicom, S.A.

Recoverable amount is €4.9 million higher than carrying amount (2017: €3.7 million).

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

- A 194% increase in the discount rate used.
- A 50% decrease in cash flows.

The carrying amount, the recoverable amount, and the discounted terminal value as a percentage of total recoverable amount in 2018 and 2017 are as follows:

	€ thousand	
	2018	2017
Carrying amount	4,931	5,333
Recoverable amount	9,843	8,994
Discounted terminal value/recoverable amount, %	65%	66%

No impairment of goodwill related to Epicom, S.A. was recognised at 31 December 2018 and 2017.



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

d) Development expenses

Capitalised development expenses at 31 December 2018 relate to the following projects:

	€ thousand			
	Cost	Accumulated amortisation	Impairment loss	Carrying amount
CIFRADOR EP641	821	(370)	-	451
ESTUDIO FABRICACION EQUIPOS GRANDES DIMENSIONES	402	-	-	402
CIFRADOR EP430TX	608	(274)	-	334
MOCK UP HYDROPROCESSING REACTOR	240	-	-	240
CRYPTO TOKEN CT2	280	(75)	-	205
EP960	241	(73)	-	168
FASTCLAD NUEVOS METODOS FABRICACION INSP	148	-	-	148
CERTIFICACIÓN GN 2.0 OBSOLETA CPU	106	-	-	106
Other projects	4,310	(3,800)	-	510
	7,156	(4,592)	-	2,564

At 31 December 2017, certain R&D projects not expected to generate future economic benefits were derecognised, for a net amount of €5,681 thousand.

10. Investments in associates

	€ thousand	
	2018	2017
Opening balance	20	4,403
Disposals	-	(4,383)
Changes in the scope of consolidation	4,752	-
Share of profit/(loss)	(177)	-
Closing balance	4,595	20

Changes in the scope of consolidation in 2018 related to the sale of 80% of the shares of DF Rail.

Disposals in 2017 related mainly to Estudios e Ingeniería Aplicada XXI, S.A.



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

Name	Country of incorporation	€ thousand				% ownership interest
		Assets	Liabilities	Revenue	Profit / (loss)	
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%
2017						
• Zoreda Internacional S.A.	Spain	50	-	-	-	40%
• Sociedad de Servicios Energéticos Iberoamericanos S.A.	Colombia	(*)	(*)	(*)	(*)	25%
• MDF Tecnogas, S.L.	Spain	3,730	3,140	-	-	50%

(*) 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:

	€ thousand		
	Amortised cost	Fair value through other comprehensive income	TOTAL
31 December 2018			
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



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NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

	€ thousand			
<u>31 December 2017</u>	<u>Amortised cost</u>	<u>Fair value through other comprehensive income</u>	<u>Hedging derivatives</u>	<u>TOTAL</u>
On-balance sheet assets				
- Equity instruments		5,590	-	5,590
- Derivatives (Note 13)		-	1,052	1,052
- Receivables and other financial assets	421,242	-	-	421,242
Total	421,242	5,590	1,052	427,884

Available-for-sale financial assets include mainly the stake in Ausenco for €4,380 thousand (2017: €5,205 thousand) over which the Group does not have control. Changes in the fair value of these financial assets amounting to a negative €825 thousand have been recognised (2017: negative €726 thousand).

The classification and measurement requirements of IFRS 9 did not have a significant impact for the Group. The Group continued measuring at fair value all financial assets currently held at fair value in accordance with IAS 39. Changes in the classification of the Group's financial assets were as follows:

- Trade receivables and other non-current financial assets, previously classified as “Loans and receivables” are held to collect contractual cash flows and give rise to cash flows that are solely payments of principal and interest. They are now classified and measured as debt instruments at amortised cost.
- Equity instruments of companies that are not quoted were previously classified as “Available-for-sale financial assets”. Now they are classified and measured as “Equity instruments at fair value through other comprehensive income”. The Group has elected to classify irrevocably its equity instruments that are not quoted in this category, since it intends to maintain these investments for the foreseeable future. No impairment losses were recognised on these investments in profit or loss in previous years.
- Quoted equity instruments were previously classified as “Available-for-sale financial assets”. Now they are classified and measured as “Financial assets at fair value through profit or loss”.

As a result of the change in classification of quoted equity instruments, “Valuation adjustments of available-for-sale financial assets” for €1,938 related to these investments, shown previously under other comprehensive income, were reclassified to reserves.

Financial assets at fair value through profit or loss are presented under “Operating activities” in the statement of cash flows as part of the changes in working capital (Note 35).



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NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS
(€ thousand)

	€ thousand		
	Fair value through profit or loss	Debts and payables (amortised cost)	TOTAL
31 December 2018			
On-balance sheet liabilities			
- Bank borrowings (excluding financial lease liabilities) (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

	€ thousand			
	Fair value through profit or loss	Debts and payables (amortised cost)	Hedging derivatives	TOTAL
31 December 2017				
On-balance sheet liabilities				
- Bank borrowings (excluding financial lease liabilities) (Note 22)	-	324,052	-	324,052
- Finance lease liabilities (Notes 6 and 22)	-	22,386	-	22,386
- Derivatives (Note 13)	-	-	2	2
- Other financial liabilities	-	413,806	-	413,806
Total	-	760,244	2	760,246

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	
	2018	2017
Trade receivables	215,165	233,603
Less: Provision for impairment of receivables	(83,023)	(61,637)
Completed work pending certification	77,424	170,549
Other receivables	143,032	74,945
Tax refundable	42,401	52,910
Advance payments	1,694	3,593
Receivables from related parties (Note 38)	-	174
Total	396,693	474,137
Less: Non-current portion of other receivables	(982)	(413)
Current portion	395,711	473,724



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NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

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	
	2018	2017
2019		-
2020	513	365
2021	405	48
Subsequent years	64	-
Total, non-current	982	413

Completed work pending certification over one year past due amounted to €20.6 million, relating mainly to the Termocentro (€15.3 million) and Felguera Gruas India (€5.3 million) projects. These amounts were taken into account in the impairment tests of receivables.

At 31 December 2018, in addition to receivables provisioned, receivables amounting to €98,303 thousand had fallen due (2017: €98,417 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. Balance more than six months past due, which relate to projects in progress, are also not considered to be impaired as they are covered by prepayments not settled and recognised under "Trade and other payables" (Note 23) for €5 million (2017: €13.7 million).

The most important past-due balances relate to:

- The "Termocentro" project being carried out in Venezuela, amounting to €16,291 thousand (2017: €35,586 thousand). In 2018 and to date, no amounts related to this project have been received. 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 by the customer.
 - Since the customer is a public institution, the payable was equated to Venezuela sovereign debt.
 - The average yield for the last nine months of 14 Venezuelan government bonds, of 27.06%.
 - The confirmation from the customers on 8 February 2019 of the full amount 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 €19,805 thousand. This took the cumulative amount of the provision at 31 December 2018 to €66,282 thousand. It also showed an amount for completed work pending certification of €15,306 thousand.

- The "Gangavaram Port Limited" project delivered in India for €17,612 thousand (2017: €18,229 thousand), with which the Company is involved in arbitration (Note 36). The amount is partially covered by the provision for penalty recognised by the Company of €4,768 thousand (2017: €4,862 thousand) (Note 26).



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- The “Khrisna Port” project suspended in India for €3,921 thousand (2017: €4,081 thousand), with which the Company is involved in arbitration (Note 36). The amount is partially covered by the provision for penalty recognised by the Company of €669 thousand (2017: €696 thousand) (Note 26).
- The “Tuticorin” project suspended in India for €3,144 thousand (2017: €3,144 thousand), with which the Company is involved in arbitration (Note 36). The amount is partially covered by the provision for penalty recognised by the Company of €754 thousand (2017: €0 thousand) (Note 26).

“Other receivables” includes mainly the amount recoverable from Samsung C&T Corporation pursuant to the arbitration ruling received on 1 March 2019 (Note 41) and the amount of guarantees enforced in India by customers of the Gangavaram Port Limited, Khrisna Port and Tuticorin projects, with which the Group is involved in several ongoing lawsuits (Note 36). Based on rulings issued in the legal proceedings so far and the opinion of legal advisors, the directors consider the amounts to be recoverable.

The ageing analysis of these receivables is as follows:

	€ thousand	
	2018	2017
Up to 3 months	11,524	12,860
Between 3 and 6 months	3,743	5,174
Between 6 months and 1 year	14,249	10,608
More than 1 year	68,787	69,775
	98,303	98,417

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

	€ thousand	
	2018	2017
Opening balance	61,637	14,818
Provision for receivables impairment	25,173	47,012
Unused amounts reversed	(97)	-
Amounts used	(539)	(193)
Derecognitions/removals from the scope	(3,151)	-
Closing balance	83,023	61,637

The creation and release of the provision for impaired receivables have been included in "Other gains/(losses) net" in the income statement. The provisions recognised in the year related mainly to the impairment of receivables from a private customer in Argentina for €1,275 thousand, and the impairment of receivables from the Termocentro project for €19,805 thousand, the Navayuga projects for €2,591 thousand and the Tuticorin project for €754 thousand (Note 26).

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.



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

	€ thousand	
	2018	2017
Euro	144,873	206,816
US dollar	50,654	28,143
Pound sterling	248	23
Venezuelan bolivar	-	533
United Arab Emirates dirham	81	1,595
Argentinean peso	18,322	52,620
Indian rupee	37,744	40,315
Brazilian real	210	505
Peruvian nuevo sol	1,472	1,439
Mexican peso	19,838	30,429
Australian dollar	92,375	76,735
Algerian dinar	21,537	28,129
Chilean peso	6,417	6,369
Canadian dollar	426	-
Romanian new leu	1,128	-
Other currencies	1,368	486
	396,693	474,137

The total amount of the costs incurred and profits recognised (less losses recognised) for all current contracts at the reporting date were €3,032,535 thousand (2017: €3,660,178 thousand) and €188,643 thousand (2017: €275,236 thousand), respectively. Retentions of progress billings to customers are not significant.

13. Derivative financial instruments and hedging activities

	€ thousand			
	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Exchange insurance-hedging	-	-	1,052	2
Interest rate swaps	-	-	-	-
Total	-	-	1,052	2
Less non-current portion:	-	-	-	-
Current portion	-	-	1,052	2

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability if the maturity of the hedged item is less than 12 months.



DURO FELGUERA, S.A. AND SUBSIDIARIES

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a) Accounting hedges

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

At 31 December 2017, the Group had arranged exchange insurance for a notional amount of USD 20,000 thousand expiring 31 January 2018. It had also arranged exchange insurance for a notional amount of JPY 225.4 million expiring between 31 February 2018 and 26 April 2018.

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

	€ thousand	
	2018	2017
Balance at 1 January	788	(3,735)
Net variation due to customer invoicing	-	-
Net variation due to cash balances	-	(261)
Net variation due to supplier invoicing	-	57
Change in the value of exchange insurance	(788)	4,727
Balance at 31 December	-	788

14. Inventories

	€ thousand	
	2018	2017
Production materials and supplies	3,332	7,150
Work in progress	2,438	6,384
Finished goods	-	435
Advances to suppliers	7,278	10,436
	13,048	24,405
Less: Impairment losses	(729)	(2,209)
	12,319	22,196

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.



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15. Cash and cash equivalents

	€ thousand	
	2018	2017
Cash and banks	85,981	61,315
Short-term bank deposits and promissory notes	17,116	29,264
Cash and cash equivalents (excluding bank overdrafts)	103,097	90,579

At 31 December 2018, an amount of €17,256 thousand backed the issue of guarantees for projects and was restricted (31 December 2017: €28,866 thousand).

Short-term deposits at credit institutions relate to investments of cash surpluses maturing within three months. The effective interest rate on short-term bank deposits in 2018 fluctuated between 0.05% and 0.20% (2017: 0.05% and 0.2%) on EUR balances, between 0.10% and 0.25% (2017: 0.1% and 0.25%) on USD balances, and 1.50% (2017: 1.50% and 1.61%) on AUD balances.

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

	€ thousand	
	2018	2017
Euro	68,473	33,914
US dollar	11,835	35,843
Romanian leu	15,602	-
Canadian dollar	1,362	-
Brazilian real	37	45
Venezuelan bolivar	-	52
Pound sterling	73	361
Argentinean peso	158	1,328
Algerian dinar	2,781	5,811
Australian dollar	15	5,628
United Arab Emirates dirham	649	4,685
Mexican peso	66	68
Colombian peso	29	181
Indian rupee	292	223
Peruvian nuevo sol	1,273	526
Chilean peso	27	1,681
Chinese yuan	17	26
Other currencies	408	207
	103,097	90,579

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



DURO FELGUERA, S.A. AND SUBSIDIARIES

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16. Capital and share premium

a) Capital

At 31 December 2017, Duro Felguera, S.A.'s share capital was represented by 160 million fully subscribed and paid shares in book-entry form with a par value of €0.5 each.

On 15 June 2018, approval was given at the General Meeting of Shareholders for a capital reduction to restore the Company's equity, which had decreased as a result of losses, entailing the following:

- Reduction of share capital through the redemption of all of the Company's treasury shares (16 million shares) of €0.5 par value each for a total amount of €8 million, after which share capital comprised 144 million shares with an individual par value of €0.5.
- Reduction of share capital through a decrease of the par value of all of the Company shares; i.e. 144 million outstanding shares, once the treasury shares were redeemed, by a total amount of €70,560 thousand; i.e. €0.49 per share down to an individual par value of €0.01 per share, to offset losses based on the balance sheet closed and approved at 31 December 2017.

Subsequently, on 27 July 2018, the capital increase for a total amount of €125,712 thousand through the issuance of 4,656,000,000 new ordinary shares of €0.01 par value each, of the same class and series as outstanding shares, and a share premium of €0.017 per share was placed on file with the Asturias Companies Register.

Therefore, 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.

The costs incurred in the capital increase amounting to €8,242 million were recognised in equity.

At the date of authorisation for issue of the accompanying consolidated financial statements, according to disclosures made to the Spanish National Securities Commission (CNMV), the following legal persons held interests equal to or greater than 3% in the Company's share capital:

<u>Shareholder</u>	<u>% direct or indirect shareholding</u>
Indumenta Pueri, S.L.	9.52%
La Muza Inversiones SICAV, S.A.	4.90%
Juan José Rodríguez-Navarro Oliver	4.17%
Sabino García Vallina	3.12%
Álvaro Guzmán de Lázaro Mateos	3.08%



DURO FELGUERA, S.A. AND SUBSIDIARIES

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At 31 December 2017, the following legal persons held interests equal to or greater than 3% in the Company's share capital:

<u>Shareholder</u>	<u>% direct or indirect shareholding</u>
Inversiones Somió, S.L.	24.39%
Inversiones Río Magdalena, S.L.	10.03%
Onchena, S.L.	5.06%

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.

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 2018, the Company did not hold any treasury shares.

At 31 December 2017, the parent company held 16 million treasury shares for an amount of €87,719 thousand.

17. Share-based payments

No share delivery plan was agreed in 2018 or 2017.

18. Retained earnings and other reserves

Movements in items of "Reserves" were as follows:



DURO FELGUERA, S.A. AND SUBSIDIARIES

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	€ 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 2017	16,000	958	(24,859)	74,884	(18,197)	48,786
Distribution of 2016 profit	-	-	(23,006)	4,809	18,197	-
Other movements charged to equity	-	-	(3,860)	(10,866)	-	(14,726)
Profit/(loss) for the year	-	-	-	-	(254,496)	(254,496)
At 31 December 2017	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)

Legal reserve

The legal reserve was allocated in accordance with article 274 of the Corporate Enterprises Act, which states that in any event, companies must earmark an amount equal to 10% of profit for the year to a legal reserve until such reserve reaches at least 20% of the capital.

It may not be distributed, and can only be used to offset losses if no other reserves are available. Any amount of the reserve used for this purpose must be restored with future profits.

Revaluation reserve Royal Decree-Law 7/1996

After the three-year period during which the tax authorities may inspect the "Revaluation reserve" account balance, this reserve may be used, free of tax, to offset prior, current or future losses, or to increase capital. From 1 January 2007, it may be allocated to unrestricted reserves, provided that the monetary gain has been realised. The gain is understood to be realised in proportion to the depreciation charge recognised or when the revalued assets have been disposed of or otherwise derecognised. Were the balance of this account used for purposes other than those prescribed by Royal Decree-Law 7/1996, it would become liable to tax.

Availability and restrictions on reserves

Reserves and retained earnings whose availability is restricted by legal requirements, as appearing in the separate financial statements of the fully-consolidated companies included in these financial statements (including the parent company), relate to:



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	€ thousand	
	2018	2017
Legal reserve	12,662	26,913
Revaluation reserve Royal Decree-Law 7/1996	-	1,220
	12,662	28,133

19. Interim dividend

No interim dividend was paid in 2018 or 2017.

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	
	2018	2017
Opening balance	(13,807)	3,671
Profit/(loss) for the year	(24,238)	(16,722)
Distribution of dividends	(112)	(1,072)
Additions	907	-
Other movements	761	316
Closing balance	(36,489)	(13,807)



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS
(€ thousand)

The distribution by company is as follows:

Company	€ thousand	
	2018	2017
Felguera IHI, S.A	(17,645)	(2,250)
Duro Felguera Argentina, S.A.	(19,445)	(12,176)
Felguera Tecnologías de la información, S.A.	545	472
Eólica del Principado S.A.	-	14
Felguera-Diavaz Proyectos México, S.A. de C.V.	(2)	(2)
Operación y Mantenimiento Solar Power, S.L.	8	90
DF Saudí	50	50
Núcleo Chile, S.A.	-	(5)
	(36,489)	(13,807)

21. Deferred income

The movement in “Deferred income” was as follows:

	€ thousand					
	Opening balance	Additions	Transfer for profit/(loss)	Disposals	Other movements	Closing balance
2017						
Grants	6,929	428	(516)	(210)	-	6,631
2018						
Grants	6,631	670	(3,003)	(21)	(17)	4,260

In 2018, this item included €1,592 thousand (2017: €1,930 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	1,374	Building in Gijon Technology Park
Ministry of Industry and Energy	191	CPI La Felguera building
I.F.R.	118	Warehouse in the Silvota industrial park
Ministry of Industry	237	New reactor manufacturing process
Principality of Asturias	174	Investment in bending machine
Ministry of Industry	175	Capital investment
Ministry of Industry	162	New welding processes
Other grants	1,829	
	4,260	



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

22. Borrowings

	<u>€ thousand</u>	
	<u>2018</u>	<u>2017</u>
Non-current		
Convertible bonds	8,069	-
Bank borrowings	85,000	64,911
Finance lease liabilities	-	-
Other loans	6,812	9,345
	<u>99,881</u>	<u>74,256</u>
Current		
Bank borrowings	2,321	259,141
Finance lease liabilities	-	1,525
Interest payable and other financial liabilities	4,374	7,727
	<u>6,695</u>	<u>268,393</u>
Total current borrowings	<u>106,576</u>	<u>342,649</u>

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

	<u>€ thousand</u>	
	<u>2018</u>	<u>2017</u>
Euro	102,879	338,153
US dollars	1,673	4,496
Indian rupee	2,024	-
	<u>106,576</u>	<u>342,649</u>

The maturity of non-current borrowings is as follows:

	<u>€ thousand</u>	
	<u>2018</u>	<u>2017</u>
Between 1 and 2 years	2,129	67,133
Between 2 and 5 years	96,352	5,307
More than 5 years	1,400	1,816
	<u>99,881</u>	<u>74,256</u>



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NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

a) Convertible bonds

On 27 July 2018 (effective date), Duro Felguera, S.A., under the scope of the refinancing agreements (Note 22 b) signed with its financial institutions, converted €233 million of bank borrowings into Class A and Class B convertible bonds. Based on the legal evaluation carried out by the Company, 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 Company. The financial institutions' only recourse, even in the event of voluntary bankruptcy, is the request for conversion into shares.

The main terms of the refinancing agreement regarding the convertible bonds are as follows:

- **Class A Convertible Bonds**

The total nominal amount of the 9,073,637,389 Class A Convertible Bonds is €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:

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

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.



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(€ thousand)

- 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 306,382,979 new shares applying the contractual exchange ratio) considering that:
 - o As 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.
 - o 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 306,382,979 new shares applying the contractual exchange ratio) 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 Company'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 Company, the greater the number of shares received by the bondholders and, accordingly, the higher the percentage of share capital and value of the Company the holders will receive, which is not the case with the Class A Convertible Bonds.

The Company has an independent expert valuation dated 2 August 2018. For the measurement, a binomial tree was developed and the weighted average quoted price of the last six months was considered, along with volatility of the spot price of 53.54%, volatility of the averaged weighted price of the last six months of 30% and a risk-free interest rate curve based on the EONIA rate. The independent expert valuation concludes that the Class A Convertible Bonds are worth €8,093 thousand, recognised in equity.



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- Class B 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

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

- **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.



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- **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** (C_p) of Class B Convertible Bonds is calculated at each conversion window in accordance with the following formula:

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

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:
 - o First, exceeding the minimum market capitalisation threshold of €236 million; and
 - o Second, if this threshold is exceeded, the number of shares to be issued will depend directly on the Company'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 Company has elected the alternative of not separating the embedded derivative and classifying the entire instrument at fair value through profit or loss.

The Company has an independent expert valuation dated 2 August 2018. For the measurement, a binomial tree was developed and the weighted average quoted price of the last six months was considered, along with volatility of the spot price of 53.54%, volatility of the averaged weighted price of the last six months of 30% and a risk-free interest rate curve based on the EONIA rate. The independent expert valuation concludes that the Class B Convertible Bonds are worth €8,069 thousand, recognised as a financial liability.



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The Company has an independent expert valuation dated 13 February 2019. For the measurement, a binomial tree was developed and the weighted average quoted price of the last six months was considered, along with volatility of the spot price of 126.1%, volatility of the averaged weighted price of the last six months of between 39.3% and 50%, and a risk-free interest rate curve based on the EONIA rate. The independent expert valuation concludes that the Class B Convertible Bonds are worth between €7,463 thousand and €8,627 thousand. Therefore, the Company considered it reasonable to maintain the financial liability recognised for €8,069 thousand.

General features of both classes of bonds

- Final maturity

The maximum duration of the bonds is five years from the effective date. Therefore, unless the Bonds are converted or cancelled early, as provided for in the Terms and Conditions of the agreement, they shall mature on the date of the fifth anniversary from the effective date.

At the final maturity date, Bonds not previously converted shall be cancelled, resulting in the release and extinguishment of the claim represented by them.

- Conversion price adjustments

So that the economic conditions of the bondholders are the same as those of shareholders, both classes of bonds are subject to adjustments to the conversion prices in the following situations:

- a) Capital increase through the capitalisation of reserves, profits or issue premium of newly issued ordinary shares, or the redistribution of the par value of ordinary shares through a stock split, a reverse split, or a capital increase or reduction;
- b) Issuances of shares or other securities to shareholders via the grant of subscription or purchase rights;
- c) Issuances of shares and other securities without rights;
- d) Spin-offs, capital distributions and sale of equity interests.

- Commitments

While the bonds are outstanding, the Issuer shall have, *inter alia*, the following commitments:

- It shall not carry out any type of corporate transaction, including, but not limited to, any structural modification (e.g. merger, spin-off, global assignment of assets and liabilities or similar) or transformation, dissolution or liquidation;
- It shall not issue or pay any security (other than the issue of the Ordinary Shares required to meet the exercise of the Conversion Right under the terms set out in the Terms and Conditions);



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It shall not modify whatsoever the rights attaching to the Ordinary Shares in respect of voting, dividends or settlements;

- It shall not 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 in accordance with these Terms and Conditions;
- It shall not declare or pay any dividends or make any other distributions or payment to shareholders in any other connection;
- It shall not reduce the share premium account or any reserve of the Company, except where required by law or in application of accounting standards.

b) Bank borrowings

On 21 June 2018, the parent company signed a refinancing agreement with its main financial institutions covering a total debt of €318,009 thousand, effective 27 July 2018.

The refinancing agreement entails the conversion of debt into convertible bonds (Note 22 a)) for €233,009 thousand, the restructuring of the remaining €85,000 thousand in a 5-year syndicated 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 presents the balances subject to the refinancing agreement and the impact of the restructuring at the effective date.

Institution	Liability affected	Liability convertible into bonds (Note 22 a))	Resulting liability affected post-restructuring
Banco Bilbao Vizcaya Argentaria, S.A.	20,997	(18,191)	2,806
Banco Cooperativos Español, S.A.	10,000	(6,805)	3,195
Banco Popular Español, S.A.	48,543	(30,493)	18,050
Banco Sabadell, S.A.	39,924	(32,576)	7,348
Banco Santander, S.A.	113,748	(93,175)	20,573
Bankia, S.A.	25,000	(12,236)	12,764
Caixabank, S.A.	34,797	(22,524)	12,273
Liberbank, S.A.	25,000	(17,009)	7,991
	318,009	(233,009)	85,000

In accordance with IFRS 9, the Company assessed whether the present value of the cash flows discounted under the new terms and conditions and using the original effective interest rate differs by more than 10% from the present value of the cash flows of the original liability. In this case, the percentage obtained was 72%, so the original liability was extinguished. In addition, the qualitative terms and conditions of the debt are completely different to those of the original debt.

The amount recognised in profit or loss under "Net financial income/(expense)" (Note 31) as a result of the refinancing was €216.8 million, less €1.9 million for total costs and fees and commissions incurred in the refinancing.



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NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

The €85,000 thousand syndicated loan is subject to compliance with the following debt ratio (gross financial debt/ EBITDA) from the year ended 31 December 2018:

Date	Multiple
31 December 2019	6.27x
30 June 2020	3.20x
31 December 2021	1.54x
30 June 2022	1.14x

The directors expect to comply with the ratio applicable at 31 December 2019.

The refinancing agreement also includes the grant of new financing via establishment of a revolving bond and counter guarantee line for up to €100 million and the extension or rollover of the bonds issued by the signing credit institutions in the agreement. Each bond and counter guarantee issued against this new line must be guaranteed by an insurance company, export credit agency or equivalent entity (for at least 50% of the nominal amount of the bond). In December 2018, the Company received a firm offer, as required in the refinancing agreement, so this requirement was met.

c) Draw-downs on credit accounts and discounting facilities

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

	2018	2017
Loans:		
Euro	0.9%-3%	0.9%-14%
Argentinean peso	-	-
Indian rupee	-	-

The Group has the following undrawn credit facilities:

	€ thousand	
	2018	2017
Floating rate:		
- Expiring within one year	-	367
- Expiring beyond one year	-	89
	-	456

d) Finance lease liabilities

At 31 December 2017, "Finance lease liabilities" included an amount of €1,525 thousand relating to the buildings indicated in Note 8. On 26 September 2018, the Group repaid in full the outstanding amount of the finance lease, so there was no amount for this item at 31 December 2018.



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NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

The present value of finance lease payments is the same as presented below, since they are shown net of interest, but are linked to a floating interest rate, which would cancel the effect of discounting.

	€ thousand	
	2018	2017
Finance lease liabilities (minimum lease payments):		
- Within one year	-	1,525
- After one year but not more than five years	-	-
- More than five years	-	-
	-	1,525

e) 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	
	2018	2017
Suppliers	194,072	259,925
Amounts due to related parties (Note 38)	17	214
Other payables	13,477	13,724
Advances received for contract work	140,961	122,871
Social security and other taxes	16,857	21,434
	365,384	418,168
Non-current portion	-	-
	365,384	418,168



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

	€ thousand	
	2018	2017
Euro	232,055	261,534
Venezuelan bolivar	41	571
Indian rupee	12,921	10,714
Argentinean peso	15,116	7,992
US dollar	48,498	75,918
Canadian dollar	88	629
Brazilian real	107	610
Pound sterling	196	771
Chilean peso	1,326	13,025
Mexican peso	12,097	1,035
Peruvian nuevo sol	692	1,256
Romanian new leu	408	1,995
Australian dollar	14,586	14,540
Algerian dinar	21,803	22,496
Japanese yen	2,696	-
Chinese yuan	2,327	1,765
Other	427	3,317
	365,384	418,168

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	
	2018	2017
- Average supplier payment period	190.42	113.20
- Ratio of transactions paid	118.90	83.39
- Ratio of transactions outstanding	353.47	212.49

	€ thousand	
	2018	2017
- Total payments made	198,122	322,302
- Total payments outstanding	86,897	96,754



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24. Deferred taxes

Deferred tax assets and liabilities are as follows:

	€ thousand	
	2018	2017
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	34,401	10,082
- Deferred tax assets to be recovered within 12 months	7,242	950
	41,643	11,032
Deferred tax liabilities:		
- Deferred tax liability to be recovered after more than 12 months	(34,812)	(13,751)
- Deferred tax liability to be recovered within 12 months	(7,294)	-
	(42,106)	(13,751)
Net	(463)	(2,719)

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

	€ thousand	
	2018	2017
Opening balance	(2,719)	56,265
(Charge)/credit to income statement (Note 32)	1,033	(54,400)
Adjustment	(129)	-
(Charged)/credited to reserves	1,352	(4,584)
Closing balance	(463)	(2,719)

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

	€ thousand			
<u>Deferred tax assets</u>	<u>Provision for employee benefit obligations</u>	<u>Tax losses and deductions</u>	<u>Other</u>	<u>Total</u>
At 1 January 2017	1,663	38,546	28,262	68,471
(Charge)/Credit to the income statement	(1,663)	(38,546)	(12,223)	(52,432)
Charge/(Credit) to equity	-	-	(5,007)	(5,007)
At 31 December 2017	-	-	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

Derecognitions in 2018 relate to the deferred tax assets of Duro Felguera Rail, S.A.U. and Núcleo de Comunicación y Control, S.L.U., which were excluded from the scope of consolidation following their sale (Note 6).



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NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

In 2017, the Group reassessed the recovery of deferred tax assets taking into account the deferred tax assets and liabilities relating to the same taxable entity and the period of reversal, maintaining the deferred tax assets on the balance sheet up to the limit of the deferred liabilities with each taxable entity. Accordingly, the Group derecognised a total amount of €53,219 thousand, relating mainly to taxable income/(tax losses) and deductions. The other amounts derecognised, of €4,220 thousand, related to changes in the year.

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.

In addition, the Spanish tax group had unused tax credits arising from prior years of €7,405 thousand at 31 December 2018 not recognised as assets.

The most significant other deferred tax assets related primarily to:

- €40,106 thousand with the Spanish tax group.
- €1,229 thousand with Felguera IHI, S.A.
- €296 thousand with Felguera Tecnologías de la Información.

	€ thousand			
	Gains on transactions with non-current assets	Asset revaluation	Other	Total
Deferred tax liabilities				
At 1 January 2017	165	3,922	8,119	12,206
Charge/(Credit) to the income statement	-	-	1,968	1,968
Charge/(Credit) to equity	2	(546)	121	(423)
At 31 December 2017	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

The Group recognised a deferred tax liability in the period 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 (Note 22) 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.



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NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

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 deferrals granted in an agreement with the taxpayers' creditors.

Accordingly, the tax income recognised annually in the corporate tax statement has no limit on the offset of NOLs, as provided in the tax legislation. As a result, since the Spanish tax group had €132,900 thousand of unused tax loss carryforwards at 31 December 2017 arising in prior years and the outlook is for tax loss carryforwards to be generated in 2018 of €61,590 thousand, the tax income recognised may be set off in full with these tax loss carryforwards, since they exceed the tax income.

Since the reversal of the negative tax adjustment in the period can be offset fully with tax loss carryforwards and the Group has such tax loss carryforwards, the recognition of a deferred tax asset for the same amount as the liability recorded is justified.

Specifically, regarding the recognition of deferred tax assets, paragraph 24 of IAS 12 states that a deferred tax asset shall be recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Paragraph 28 of this standard states that it is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same period as the expected reversal of the deductible temporary difference.

Therefore, by recognising the deferred tax liability related to the negative tax adjustment arising from the exclusion of the financial income, in accordance with accounting regulations, a deferred tax asset of €33,275 thousand is also recognised for the tax loss carryforwards that will be used to set off this tax adjustment, leaving unused tax losses of €61,790 thousand.

The most significant deferred tax liabilities related primarily to:

- a) €40,315 thousand with the Spanish tax group.
- b) €1,142 thousand with Felguera IHI, S.A.
- c) €419 thousand with Dunor Energía.



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NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS
(€ thousand)

25. Employee benefit obligations

	€ thousand	
	2018	2017
Non-current obligations		
Coal vouchers	104	109
Other obligations with employees	1,413	1,328
	1,517	1,437
Current obligations		
Salaries payable	6,882	6,602
Profit sharing and bonus	522	1,140
	7,404	7,742

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 2017	-	114	114
Provisions	-	4	4
Payments	-	(9)	(9)
Reversals	-	-	-
At 31 December 2017	-	109	109
Provisions	-	4	4
Payments	-	(9)	(9)
Reversals	-	-	-
At 31 December 2018	-	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 1.28% p.a. (2017: 1.24% p.a.).



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

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 2017	1,439
Provisions charged to profit or loss	430
Amounts used	(418)
Surplus	(115)
Transfers	(8)
At 31 December 2017	1,328
Provisions charged to profit or loss	754
Amounts used	(334)
Surplus	(132)
Transfers	(203)
At 31 December 2018	1,413

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 1.28% p.a. (2017: 1.24% p.a.).

26. Provisions for other liabilities and charges

	€ thousand			
	Provision for completion of works	Trade provisions	Other provisions	Total
At 31 December 2017	80,586	17,518	11,972	110,076
Charge to income statement				
- Provisions	54,259	469	16,461	71,189
- Amounts used	(126)	-	(621)	(747)
- Unused amounts reversed	(46,763)	(7,238)	(3,984)	(57,985)
- Other movements	(20,113)	(1,119)	18,148	(3,084)
At 31 December 2018	67,843	9,630	41,976	119,449

“Provision for completion of works” includes mainly those amounts for which it has been considered reasonable to set aside a provision, basically as a result of various contractual clauses relating to warranties and liabilities which, if appropriate, would have to be assumed upon completion of the work (taking into account the historical development of the amounts that have had to be assumed for this type of contingencies) and losses on projects. The cash outflow is expected to take place during the next three years.



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

Provisions in 2018 relate primarily to amounts set aside to cover project losses of €47,283 thousand, the increase in the provision for Roy Hill of €4,209 thousand, guarantees of €2,767 thousand, the estimated risk related to the arbitration of the Digestores de Medellín project in Colombia of €5,503 thousand, claims of suppliers of €7,575 thousand and labour risks of €2,621 thousand.

Additional amounts set aside for projects in progress arose from the new assessment of total estimated project costs due to: changes in the technical specifications and location of plants to be built; receipt of the final geo-technical definitions; modifications and advances in the development of detailed engineering based on feedback received from customers and/or suppliers of the main equipment; the increase in equipment costs due to the need to close with suppliers accepted by customers; and higher expected costs due to extensions in the expected term of execution. The cash outflow of the items provisioned is expected to take place during the next three years.

Regarding these cost increases, the Company is in talks with/has made claims to customers to minimise the negative impact. However, in accordance with IFRS 15, to date they did not meet the requirement for recognition.

Unused amounts reversed in 2018 relate mainly to the amount utilised for the provision for losses made as the related projects are executed, for €14,535 thousand, the partial reversal of provisions maintained in relation to the Roy Hill project for €30,999 thousand after the ruling by the Singapore International Arbitration Centre (Note 41) and the cancellation of guarantees for €6,043 thousand.

The net amount shown under "Other movements" relates mainly to the unused amounts of provisions reversed following the exclusion from the consolidation scope of Duro Felguera Rail, S.A. and Núcleo de Comunicación y Control, S.L. (Note 6).

The net movement in "Provision for completion of works" of €-12.7 million in 2018 is as follows: €-4.1 million to guarantees, €+32 million to losses on projects, and €-40.6 million to liabilities. In all cases, the expected outflow of economic benefits is between six months and three years, depending on the estimates dates of completion of projects in progress.

The breakdown of the provision for completion of works is: provision for warranties of €16.3 million (none of which for individual projects is significant), provision for penalties of €5.4 million (mainly the GPL and Khrisna Port projects) and the provision for losses of €46.1 million. "Trade provisions" and "Other provisions" include mainly contingent amounts with third parties of the Roy Hill project, for €9.1 million and €23.1 million, respectively.

At 31 December 2018, the Group has recognised provisions for losses amounting to €46,110 thousand (2017: €12,802 thousand).



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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	1,274	Next 6 months
Liabilities and charges due to labour disputes	2,621	Between 12 and 24 months
Liabilities and charges due to legal proceedings	38,081	Between 6 months and 3 years
	41,976	

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	
	2018	2017
Analysis of total provisions:		
– Non-current	23,174	1,956
– Current	96,275	108,120
	119,449	110,076

27. Revenue

a) Revenue

The breakdown of revenue by activity is as follows:

	€ thousand	
	2018	2017
Energy	142,995	284,842
Mining & Handling	131,494	85,909
Oil & Gas	47,132	45,163
Specialised Services	68,177	144,417
Manufacturing	19,459	43,293
Other	12,068	20,502
Revenue	421,325	624,126

“Other” includes revenue related to companies not allocated to any business area, mainly derived from engineering and systems integration activities in the civil communications, aeronautics and shipping sectors, security and defence and industrial control amounting to €11,193 thousand (2017: €19,321 thousand).

Contract revenue recognised in 2018 amounted to €399,368 thousand (2017: €598,849 thousand).



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

	€ thousand	
	2018	2017
Euro	206,748	260,220
Algerian dinar	13,766	28,475
United Arab Emirates dirham	2,246	8,123
US dollar	160,580	253,576
Australian dollar	2,537	20,501
Canadian dollar	7,410	1,679
Mexican peso	20	-
Venezuelan bolivar	-	1,288
Argentinean peso	10,919	9,776
Chilean peso	11,044	38,816
Peruvian nuevo sol	5,378	1,569
Other currencies	677	103
	421,325	624,126

b) Foreign currency transactions

The amounts of foreign currency transactions are as follows:

	€ thousand	
	2018	2017
Sales	214,577	363,906
Purchases	(138,540)	(213,103)
Services received	(30,491)	(58,480)

28. **Employee benefits expense**

	€ thousand	
	2018	2017
Salaries and wages	(77,547)	(95,586)
Termination benefits	(4,529)	(2,738)
Social security costs	(19,721)	(22,736)
Own work capitalised	-	-
Other employee benefits expenses	(679)	(368)
	(102,476)	(121,428)



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NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

29. Operating expenses

	€ thousand	
	2018	2017
Leases	(8,029)	(7,217)
Repairs and maintenance	(1,360)	(2,613)
Independent professional services	(26,367)	(43,282)
Transportation	(9,432)	(10,403)
Insurance premiums	(3,145)	(5,116)
Banking and similar services	(4,480)	(8,461)
Advertising	(366)	(972)
Utilities	(5,668)	(5,839)
Other services	(43,725)	(25,352)
	(102,572)	(109,255)

30. Other gains/(losses) net

	€ thousand	
	2018	2017
Capital grants	3,003	688
Other operating income	295	671
Operating grants	50	162
Gain/(loss) on disposals of assets	(17)	(1,061)
Impairment and losses on assets	-	(20,478)
Own work capitalised (Notes 7 and 9)	545	2,373
Taxes	(3,941)	(6,575)
Change in provisions	(51,523)	(119,634)
Other	896	7,319
	(50,692)	(136,535)

Impairments and losses on assets recognised in 2017 related mainly to the impairment of goodwill of Núcleo Comunicación y Control for €12,313 thousand (Note 9) and the buildings in Madrid classified as non-current assets held for sale for €3,915 thousand (Note 6).

Change in provisions in 2018 relates mainly to impairments of receivables in Argentina, Venezuela and India for €27,046 thousand (Note 12), the change in provisions indicated in Note 26, mainly related to project losses for €47,283 thousand, the partial reversal of provisions for Roy Hill of €30,999 thousand, risks for claims of €7,575 thousand and the estimated risk for the arbitration of the Digestores de Medellín project in Colombia for €5,503 thousand.

Change in provisions in 2017 related mainly to impairment of receivables from the Termocentro and Roy Hill profits for €46,477 thousand and €58,343 thousand, respectively. The remainder related to the change in provisions explained in Note 26.



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NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

31. Net finance income/(cost)

	€ thousand	
	2018	2017
Finance expense and similar costs	(10,689)	(10,262)
Income for:		
– Financial interest	8,230	1,680
– Financial restructuring (Note 22)	214,942	-
– Gain of purchasing power due to hyperinflation	1,904	
	214,387	(8,582)
Net foreign exchange difference	(705)	(10,038)
Change in fair value of financial instruments	(10)	(1,330)
Total net finance income/(cost)	213,672	(19,950)

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 2.3 d)).

Income from financial interest relate mainly to interest on the arbitration ruling issued by the Singapore International Arbitration Centre (Note 41) for €6,782 thousand.

The net financial result 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.

Net exchange differences for the year related mainly to the negative impact of fluctuation by the US dollar.

At 31 December 2017, net exchange differences for the year related mainly to the negative impact of the fluctuation by the US dollar, of €4,834 thousand, and the Algerian dinar, of €3,116 thousand.

32. Income tax expense

	€ thousand	
	2018	2017
Current tax	(1,968)	(199)
Foreign taxes	(1,885)	1,422
Adjustments to current tax in respect of prior years	(112)	456
Adjustments to deferred tax in respect of prior years (Note 24)	78	(2,440)
Current year deferred tax (Note 24)	955	(51,960)
Other	(768)	(374)
	(3,700)	(53,095)



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

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

	€ thousand	
	2018	2017
Consolidated profit before tax	78,892	(218,123)
Tax at 25%	(19,723)	54,531
Inter-group/branch adjustments and eliminations	343	(6,027)
Other non-deductible expenses	12,583	(9,421)
Adjustment in respect of prior years	531	(1,984)
Foreign taxes	(1,885)	1,422
Unrecognised tax losses	(28,708)	(41,513)
Addition of tax credits	33,275	-
Derecognition of tax assets of prior years	-	(50,103)
Other	(116)	-
Tax charge	(3,700)	(53,095)

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

	€ thousand	
	2018	2017
Consolidated profit/(loss)	99,430	(254,496)
Share of non-controlling interests	(24,238)	(16,722)
Income tax	3,700	53,095
Consolidated accounting profit/(loss) for the year before tax	78,892	(218,123)
Permanent differences	(50,332)	66,110
Temporary differences	(133,845)	(3,531)
Preliminary tax base	(105,285)	(155,544)
Utilisation of unused tax losses of the tax group	-	-
Utilisation of unused tax losses outside the tax group	(37,326)	(1,455)
Taxable income/(tax loss):	(142,611)	(156,999)
Attributable to the tax group	(61,590)	(49,229)
Positive, non-tax group	8,745	9,056
Negative, non-tax group	(89,766)	(116,826)
	(142,611)	(156,999)

Taxable income/(tax loss) resulting from the estimation of 2018 income tax not was recognised (Note 24).

The effective tax rate in 2016 was 4.69% (2017: 24.34%).

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.



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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 2014 and subsequent years in respect of corporate income tax, and 2015 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.

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.

On 17 May 2017, Duro Felguera, S.A. received a proposal for settlement of income tax for €101 million, plus €22 million of late-payment interest. Moreover, the adjustment made from the inspection resulted in a reduction in tax losses for the consolidated Group of €27.5 million, and a reduction in unused tax credits of €2 million. These assessments were signed under protest. The settlement agreement is based primarily on the taxation authorities' discrepancies regarding the application by the Group 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. The result of the inspection of other taxes was immaterial for the Group.

On 9 August 2017, an administrative appeal was filed with the Central Economic Administrative Court (TEAC for its initials in Spanish) against the settlement agreement notified on 27 July 2017. In addition, on 15 February 2018, the TEAC notified the Company that it could give statements and evidence, so that within a maximum period of one month from this notification, it could present them. The Company submitted a report to the TEAC dated 6 March 2018 requesting completion and the suspension of the term for submitting statements. On 14 May 2018, the TEAC notified its acceptance of the request to expand the record, saying it would grant a new stage of statements once the record is complete. A new deadline of 7 September 2018 was granted. However, as the record is still incomplete, a new request for completion was submitted on 27 November 2018. On 3 December 2018, the TEAC notified the Company that it had accepted the request for completion.



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After forwarding the case to the taxation authorities for completion, on 8 January 2019 notice was again given to the Company, which submitted its written allegations on 8 February 2019.

The Company estimate that the TEAC's ruling on this case will take at least 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.

In addition, as a result of these tax audits, the following settlement agreements were issued:

- Agreement for settlement of personal income-tax withholding to UTE TERMOCENTRO for €624 thousand plus €151 thousand for late-payment interest, dated 6 June 2017. On 5 July 2017, an administrative appeal was filed with the Central Economic Administrative Court against this agreement.
- Agreement for settlement of VAT to Duro Felguera for €2,552 thousand plus €601 thousand for late-payment interest, dated 19 July 2017. On August 24, 2017, an administrative appeal was filed with the Central Economic Administrative Court against this agreement.
- Agreement for settlement of income tax - related party transactions to Duro Felguera for €326 thousand plus €75 thousand for late-payment interest, dated 17 July 2017.

Regarding the settlement agreements issued on behalf of Duro Felguera, S.A. for VAT and corporate income tax - related party transactions and personal income tax withholding- on 15 February 2018, the TEAC notified the Company that it could present allegations and evidence, so that within a maximum period of one month from this notification, the Company must present its pleadings to the court. After identifying defects of substance, the Company submitted reports to the TEAC dated 6 March 2018 for each claim (VAT, income tax and personal income tax withholding) requesting completion of the assessments and the suspension of the deadline for submitting observations. On 11 and 14 May 2018, respectively, the TEAC notified its acceptance of the requests to expand the cases, saying it would grant a new process of allegations once the cases are complete. A new deadline of 10 September 2018 was granted. However, as the record is still incomplete, a new request for completion was submitted on 27 November 2018. On 3 December 2018, the TEAC notified the Company that it had accepted the requests for completion. After bringing the case to the taxation authorities for completion, on 4 January 2019 it notified the Company again regarding the claim filed in relation to income tax -related party transactions- so the deadline for submitting written allegations expired on 4 February 2019. In this regard, the Company, in line with its trial strategy, has decided not to present allegations for now in this connection, but it may do so at any subsequent date prior to resolution. Regarding the claim filed in relation to VAT, on 7 February 2019, the Company was notified that it could submit written allegations, which it did on 8 February 2019. Regarding the claim filed in relation to personal income tax withholding, on 9 January 2019, the Company was notified that it could submit written allegations, which it did on 8 February 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.



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Regarding the settlement agreement for VAT on behalf of UTE TERMOCENTRO, on 31 August 2018 the TEAC notified that it could give statements and evidence. After identifying a defect of substance, the Company submitted a report to the TEAC dated 4 October 2018 requesting completion of the case and the suspension of the term for submitting statements. On receipt of notification, written allegations were submitted on 7 March 2019.

In addition, on 1 February 2018, the Spanish taxation authorities notified UTE TERMOCENTRO of a proposed resolution of sanction proceedings for €23.04 million. The sanction imposed is based on the authorities' discrepancy regarding the taxable income charged by UTE Termocentro to its members. On 19 February 2018, an administrative appeal was filed with the Central Economic Administrative Court against this proposed sanction. On 11 September 2018, the TEAC notified the presentation of allegations and evidence. After identifying a defect of substance, the Company submitted a report to the TEAC dated 7 December 2018 requesting completion of the case and the suspension of the term for submitting statements. After this new notification, the Company submitted its allegations on 11 March 2019. The estimate at the date of the TEAC's ruling on this case 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's external tax advisor conducted a preliminary analysis, the findings of which it included in a report dated 24 October 2016. Subsequently, an update of the conclusions was requested, set out in a report dated 8 March 2019 supporting the strength of the arguments presented for the defence of the Company's interests and concluding that they indicate that most likely the settlement agreements will ultimately be rendered null and void by the courts.

An additional report from another independent tax expert was commissioned, which was dated 31 July 2018. The findings in this report were similar to those in the external tax expert's:

- Circumstance of the doctrine of estoppel regarding criteria presented in the inspection of 2009, in which the Company considered the taxable income charged by UTE Termocentro to be tax-deductible.
- Existence of delays in the inspection not caused by the taxpayer that could cause the statute of limitations for 2010 and 2011 to expire.
- Soundness of the evidence provided by Duro Felguera S.A, which suggests that the Company's claims could be upheld in an administrative challenge.

In the opinion of the Company's management and the conclusion of its external tax advisors, it is unlikely that the settlement agreements and the agreement arising from the aforementioned sanction will have to be paid. In this respect, management believes there are technical grounds supporting acceptance of all the criteria applied by the Group, which will most likely occur during the judicial review stage. The Company's opinion is predicated on its understanding that all the requirements were fulfilled for applying the exemption, and the fact that the criteria applied were not questioned with respect to the income from this UTE in the tax audit conducted for the years 2006 to 2009, which was signed in agreement in 2013 and any procedural defects that could result in expiry of the statute of limitations for the periods inspected.

Accordingly, the directors considered that no liability should be recognised.



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To date, the parent 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 liability from the proposal for settlement of income tax of €101 million plus €22 million of late-payment interest, the Company requested suspension of enforcement of the settlement agreement contributing real estate collateral for €29 million and requesting partial waiver of guarantee for the remainder (€94 million). The request for suspension was rejected for processing by the TEAC in a resolution dated 30 November 2017, which was notified to the Company on 18 January 2018. The move for annulment of this resolution was filed with the TEAC on 30 January 2018 and rejected by the TEAC in a resolution notified on 1 June 2018. This resolution has been challenged before the National Court in an administrative appeal filed by the parent company on 28 June 2018.

In addition, despite the appeal for annulment of the TEAC's resolution rejecting the request for suspension, on 19 January 2018 the Company filed an administrative appeal before the National Court. After a request to complete the file, on 26 June 2018 the National Court notified the Company of a measure of organisation of procedure granting a period of 20 days to bring its lawsuit. On 24 July 2018, the Company filed its suit before the National Court. In addition, a written notice of the administrative appeal dated 19 January 2018 was presented asking the National Court to issue a precautionary measure suspending the debt, with the partial contribution of guarantees while the proceeding is being conducted. This request was processed in a separate order.

In a ruling dated 26 March 2018 and notified on 9 April, the National Court issued the precautionary measure, subject to the provision of guarantees. The Company filed an appeal for reversal on 17 April 2018 (which was subsequently expanded in a written document dated 22 May 2018). On 26 June 2018, the National Court notified the ruling dated 15 June 2018 rejecting its appeal for reversal. On 3 July 2018, Duro Felguera, S.A. filed a request for additional award to the ruling of 15 June 2018, which was rejected by the National Court on 17 July 2018 and notified to the Company on 24 July.

The ruling of 26 March 2018 is eligible for appeal for judicial review by the Supreme Court, which the Company has done within the legal deadline, submitting its motion for reconsideration on 5 October 2018. In addition, on 27 December 2018, the Company appeared in the proceeding, complying with the required formality.

In the worst-case scenario, the Company estimates that this proceeding will not end and, therefore, the suspension will not be lifted, before April-May 2019.

At the date of the consolidated financial statements and based on the analysis of the external advisors:

- the ruling of 26 March is not final. An appeal for judicial review by the Supreme Court was filed (on 5 October 2018), so the 2-month deadline stipulated for providing guarantees on which the suspension is contingent has not elapsed;



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- the Spanish taxation authorities (AEAT) cannot consider exclusively breach of the term to which suspension of the appealed debt is subject and enforce it without a prior judgement by the National Court authorising it to do so and after hearing the appellant, Duro Felguera;
- once the National Court agrees expressly to lift the suspension, the AEAT must process the subsidiary request for deferment of five years submitted by the Company along with the request for suspension in written documents filed with the taxation authorities dated 4 September 2017.

The proposed terms of deferment in the request are an initial payment of 15% of the debt in the first year, 25% the second, and 30% in each of the two remaining years. Any rejection by the taxation authorities of deferment with partial waiver of guarantees may be subject to appeal before the TEAC and, subsequently, to administrative appeal before the National Court. Ruling on this proceeding is expected to take a similar amount of time as the request for suspension; i.e. around one-and-a-half years from the rejection of deferment by the taxation authority. While the proceeding is in progress, the taxation authorities may not initiate any enforced collection actions.

In addition, on 26 July 2018, the Company filed a new request for suspension with partial waiver of guarantees with the TEAC, bearing in mind that the court rejected its previous request, based on the existence of factual circumstances that further substantiate the harm that collection of the appealed tax debt would have. Regarding the request for suspension, we consider that the Company has sufficient legal grounds to expect the TEAC to accept for processing its request for suspension in application of a recent Supreme Court ruling dated 21 December 2017 that limits the circumstances in which the TEAC may reject requests for suspension, and the ruling dated 27 February 2018 that precludes the taxation authorities from initiating enforced collection actions until a request for suspension has been ruled on, irrespective of the stage in the voluntary or executive period.

Under the framework of this new request for suspension and prior to a ruling, the Company has issued mortgage guarantees on certain real estate assets (Notes 7 and 8) worth €19.6 million (appraisal value) in favour of the taxation authorities.

This new request for suspension, if rejected, may be the subject of a claim, triggering a procedure in the same terms and conditions as for the original request for suspension.

In summary, the Company estimates that, in the worst-case scenario, the lifting of the precautionary measure of suspension (not expected to occur before April-May 2019) would mark the start of a new deferment procedure, lasting around a year. If after that procedure the deferment request is not accepted and at the same time the new request for suspension filed on 26 July is rejected, and if the Company could not provide guarantees, the taxation authorities could initiate enforced collection actions of the debt.



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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. The tax audit commenced on 6 March 2018 and is currently in the stage of providing documentation, with only seven reports signed. The inspection is expected to continue for several months. At present, no estimate of the impact can be made.

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).

	<u>2018</u>	<u>2017</u>
Profit/(loss) attributable to shareholders of the company (€ thousand)	99,430	(254,496)
Weighted average number of ordinary shares in issue (thousand)	<u>2,108,449</u>	<u>144,000</u>
Basic earnings/(loss) per share (€)	<u>0.05</u>	<u>(1.77)</u>

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 2018, the Company considered as dilutive potential shares the conversion of Class A Convertible Bonds corresponding to 306,382,989 shares. At the closing date of the accompanying consolidated financial statements, conversion of the Class B Convertible Bonds (Note 22 a) was considered remote.

	<u>2018</u>	<u>2017</u>
Profit/(loss) attributable to shareholders of the company (€ thousand)	99,430	(254,496)
Weighted average number of ordinary shares in issue (thousand)	<u>2,237,718</u>	<u>144,000</u>
Basic earnings/(loss) per share (€)	<u>0.04</u>	<u>(1.77)</u>



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34. Dividends per share

No dividend were paid in 2018 and 2017.

35. Cash generated from operations

	€ thousand	
	2018	2017
<u>Profit/(loss) for the year</u>	75,192	(271,218)
<u>Adjustments for:</u>		
- Taxes (Note 32)	3,700	53,095
- Depreciation of property, plant and equipment (Note 7)	4,785	6,065
- Amortisation of intangible assets (Note 9)	2,898	3,794
- Depreciation of investment properties (Note 8)	369	405
- (Profit)/loss on disposal of property, plant and equipment and investment properties (Note 30)	17	1,061
- Depreciation of property, plant and equipment, and investment properties	-	12
- Amortisation of intangible assets	-	16,397
- Grants and other deferred income credited to the income statement (Note 30)	(3,003)	(727)
- Net movements in provisions	13,829	102,054
- Share-based payments (Note 28)	-	-
- Other movements in financial assets	11	4,045
- Interest income (Note 31)	(223,172)	(1,680)
- Interest expense (Note 31)	10,689	10,262
- Other changes	(545)	(653)
- Share of loss/(profit) of associates (Note 10)	177	-
<u>Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):</u>		
- Inventories	4,752	6,725
- Trade and other receivables	45,593	56,512
- Financial receivables	-	-
- Other assets and liabilities	(31,685)	(29,683)
- Trade and other payables	(23,745)	16,331
<u>Cash generated from operations</u>	<u>(120,138)</u>	<u>(27,203)</u>

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

	€ thousand	
	2018	2017
Profit/(loss) on disposal of property, plant and equipment and investment properties	(17)	(1,061)
Proceeds from disposal of property, plant and equipment and investment properties	27,059	604



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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 2018 and 2017, the Group had extended the following guarantees:

	€ thousand	
	2018	2017
For tender proposals	1,738	2,026
Guarantees in sales contracts in progress	378,200	523,476
Other	3,645	3,089
	383,583	528,591

Additionally, the Group has contingent liabilities in respect of litigation which are not expected to give rise to material liabilities other than those provided for (Note 26).

The Group has not provided any collateral as security for its projects. In addition, the Group has not received any guarantees other than those received by suppliers as prepayments and to ensure compliance, which are not controlled in detail as the Company understands that they do not imply any risk for the entity.

Bank and other guarantees related to the ordinary course of business relate mostly to guarantees provided by customers in respect of their contractual obligations. There are basically three types of guarantees:

- Advance payment: Customers provide monetary advances at the commencement of projects to meet project costs. Advance payment guarantees back the proper use of the advance payments in the project.
- Performance bond: Performance bonds guarantee execution of the work contracted by customers.
- Warranty: Warranties ensure the correct operation of the facilities built by the Group during the period covered thereunder.

The guarantees can be enforced by our customers in the event of breach by Duro Felguera of its contractual obligations; i.e. misuse of advances, defects or poor execution of projects, and non-compliance with obligations during the term of the guarantee. Non-compliance events are detailed in the commercial agreements governing the work.

These guarantees are provided by third parties on behalf of Duro Felguera, mainly banks and insurance companies that issue these instruments to customers on behalf of Duro Felguera. When the guarantees are enforced, the related bank or insurance company pays the customer or beneficiary and claims reimbursement of the amounts paid from Duro Felguera.

The probability of occurrence is remote and contingent on the correct performance of the work entrusted to us by our customers. Duro Felguera boasts an excellent reputation and prestige in executing its projects, which is clearly a mitigating factor for the risk of occurrence.



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Lawsuit by the Special Prosecutor

On 14 December 2017, the Company disclosed the receipt of the ruling by the Central Examining Court no. 2 of Madrid accepting the lawsuit filed against Duro Felguera, S.A. and other companies by the Special Prosecutor against corruption and organised crime over the potential existence of an alleged offence of corruption of a foreign authority or public official, in addition to alleged crime of money laundering in relation to payments amounting to approximately USD 80.6 million.

The circumstances surrounding the events the led to the prosecutor's proceedings and the lawsuit were:

- (i) the arrangement and subsequent execution of a contract entered into between Duro Felguera, S.A. and Venezuelan public company C.A. Electricidad de Caracas for the construction and commissioning of a combined-cycle power plant in Venezuela (the "Termocentro contract" worth more than USD 2 billion).
- (ii) the payments made in respect of the commitments undertaken by Duro Felguera, S.A. in consulting, advisory and technical assistance service agreements, first to Técnicas Reunidas C.A. (TERCA), on 3 December 2008, and then to Ingeniería Gestión de Proyectos de Energía, S.A. (INGESPRES), which assumed the former's contractual position from April 2011.

Following the testimony given by the Company's representative before the National Court on 16 February 2018, Central Examining Court no. 2, at the Prosecutor's request, declared this a complex case and, accordingly, extended the time limit for examination for a period of 18 months following the start of proceedings, which will ended on 28 March 2019. On 19 March 2019, the prosecutor requested that Central Examining Court No. 2 grant an additional extension for examination of 18 months, expected to be agreed by the court in the coming days, which would take this period up to September 2020.

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



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In addition, in light of the report issued by Grant Thornton's forensics division, the evidence contained in the documentation provided in the Prosecutor's investigation and the pre-trial proceedings of the Central Examining Court, 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 Company's defence argues that, in the report issued 9 March 2018, there is no evidence whatsoever that Duro Felguera S.A., its board of 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 Company for any potential money laundering crimes, for which there is no precedent or evidence, nor any involvement by the Company. Finally, the Company considers that the measure and policies outlined in its non-financial reporting are still appropriate.

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

Roy Hill

The Group, through its Duro Felguera Australia, Ltd. ("DFA") subsidiary, is involved in arbitration proceedings with Samsung C&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 Samsung as customer. The final hearings were held in February 2018 and the parties' conclusions delivered in April 2018.

As explained in Note 41, on 1 March 2019, the Group received a final partial ruling by the Singapore International Arbitration Centre (SIAC). The ruling requires payment to the Group for all items plus interest and costs to be stipulated in a further ruling.

Based on the wording of the ruling issued, at 31 December 2018 the Company cancelled part of the provisions recognised (Note 26), recognised the portion of interest that is virtually certain as an asset (Note 31) in accordance with the assessment of the Group's external legal advisers and recognised the related liabilities with third parties (Note 26), after assessing the related risks, in accordance with the assessment of the Group's external legal advisers and the application of "back to back" provisions in the contracts signed with suppliers.

The accounting effects of this ruling were recognised in the accompanying consolidated financial statements, with a positive impact on consolidated equity and profit of €38 million.



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Vuelta de Obligado

On 29 August 2016, an arbitration claim was filed with the Buenos Aires Stock Exchange against customer Central Vuelta de Obligado for cost overruns sustained during execution of the project, with the following items and amounts:

- Claim for delays in the availability of electricity and compensation for the new labour/trade union agreement, amounting to ARP 874 million (approximately €20.2 million) at present. –
- Claim for technical modifications to the original project made at the customer's request, amounting to ARP 720 million (approximately €16.6 million) at present.
- Claim for losses caused by the sudden lack of representativeness in the scheme for recalculating prices, amounting to ARP 867 million (approximately €20 million).
- Claim for additional measures adopted to prevent damage and higher costs arising from the default by Central Vuelta de Obligado, amounting to ARP 841 million (approximately €19.4 million).

The total amount of claims submitted at the closing rate was €76 million (ARP 3,302 million). Regarding this claim, at 31 December 2018 the Company had not recognised any amount (Note 4.h).

The arbitration is currently suspended. The original period of suspension ran until 28 May 2018 after the request was approved by the Arbitration Court on 14 August 2017, with DF Argentina expressing its conformity on 19 September 2017. For this, DF Argentina and General Electric signed Conditional Supplemental Agreement II, which ensures the continuation of the arbitration action on behalf of the latter against CVO for at least ARP 430 million plus interest and finance charges, which at the date of the agreement amounted to ARP 779 million. However, this will be updated at the date of collection by DF Argentina in accordance with the transactional agreement between the parties. Subsequently, following certification by the customer on 23 February 2018 that the plant had come fully on stream, on 18 June 2018 the parties agreed to extend the suspension until 15 September 2018, which has since been extended to 15 March 2019. During the latest round of negotiations between General Electric and the customer, notification was given from the customer of the claims that General Electric would be willing to assume and that it would not file a counter-claim against DF Argentina if the parties cease to continue the arbitration under way, which is currently suspended. The new situation arising from the latest negotiations, coupled with an opinion from the external lawyers on 28 February 2019, cast doubt over the outstanding amount not recognised by the customer. Therefore, the Group recognised an impairment of the asset for €16,557 thousand as there were doubts regarding recoverability.

On 11 March 2019, a new request for suspension until 15 May 2019 was sent to the court together with the customer.

Regarding the Group's arbitration proceedings in India with certain customers, the recoverability of the amounts receivables has been reassessed based on a legal opinion of external lawyers dated 11 February 2019 and the considerations and items admitted and applied by the courts in the rulings issued on 30 August 2018 for the arbitration with Navayuga Engineering Company Ltd. and Krisnnapatnam Port Company Ltd.



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Navayuga Engineering Company

On 30 August 2018, the ruling on the arbitration between the subsidiary in India, Felguera Gruas India, and its customer, Navayuga Engineering Company Ltd., was notified. In these proceedings, Felguera Gruas India claimed €6.3 million, while the customer claimed €9.6 million. The ruling rejects Navayuga's claims and accepts Felguera Gruas India's claims, for €2.3 million. The Group set aside a provision of €2.6 million to adjust the receivable to the amount recognised by the court.

Gangavaram Port Limited

The Group is involved in an arbitration in India with a customer of the GPLII project claiming guarantees enforced and unpaid invoices for €33,325 thousand. The process is pending hearing, with a final decision expected to be given in 2019. The plant has been delivered to the customer and is in operation. The maximum penalty under the contract for "Liquidated Damages" is 10%, for which a provision of €4,768 thousand has been recognised (Note 26).

Trade and other receivables includes €17,612 thousand for amounts invoiced and receivable for this project, and €15,714 thousand of guarantees enforced by the customer. No amount is recognised under "Completed work pending certification". Suppliers includes €2,596 thousand in advances from customers related to this project.

The recoverability of the receivable on this project is due to the final award of contractual claims during the project's execution, failing to satisfy the requirements of IFRS 9 for recognition of impairment since it was considered that there was no credit risk with the customer. The plant was delivered and is being operated by the customer, as shown on the customer's website (www.gangavaram.com), and the Company has allocated the maximum provisions for delays and penalties according to the contractual terms. The Group reassessed the recoverability of the receivables related to this arbitration based on an opinion of the legal advisors in India, the Company's internal evaluation and the considerations and items admitted and applied by the courts in the rulings issued on 30 August 2018 for the arbitration with Navayuga Engineering Company Ltd. and Krisnnapatnam Port Company Ltd.

All GPLII's arbitration cases involve the same project, but each procedure is considered individually. Since this situation is new, it is not possible to determine an estimated date of conclusion.

The directors consider that the provision recognised covers that maximum amount of risk for Duro Felguera and, in the legal opinion of its external advisors, expect the amounts claimed to be recoverable. They do not expect any additional liabilities to arise that might have a significant effect on the accompanying consolidated financial statements.



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Khrisna Port

The subsidiary in India, Felguera Grúas India, is involved in an arbitration, claiming a total amount of approximately €12.7 million for unpaid invoices and the reimbursement of guarantees. RVR has filed a counterclaim against FGI for €16.8 million for additional costs for its part of the contract scope and penalties.

Trade and other receivables includes €3,921 thousand for amounts invoiced and receivable for this project, and €3,770 thousand of guarantees enforced by the customer, as well as a provision for penalties of €669 thousand (Note 26) for the maximum contractual penalty for “liquidated damages” of 10%.

The Group reassessed the recoverability of the receivables related to this arbitration based on an opinion of the legal advisors in India, the Company’s internal evaluation and the considerations and items admitted and applied by the courts in the rulings issued on 30 August 2018 for the arbitration with Navayuga Engineering Company Ltd. and Krisnnapatnam Port Company Ltd.

The directors consider that the provision recognised covers that maximum amount of risk for Duro Felguera and, in the legal opinion of its external advisors, expect the amounts claimed to be recoverable. They do not expect any additional liabilities to arise that might have a significant effect on the accompanying consolidated financial statements.

Meanwhile, in an arbitration proceeding, RVR is claiming €4.9 million from FGI for work performed as subcontractor in the Gangavaram (GPL) project, although FGI has submitted a counterclaim for €2 million for work not carried out by RVR that FGI had to do with third parties. On 9 August 2018, the ruling was notified requiring FGI to pay RVR €1,319 thousand, plus €271 thousand of interest and costs. This amount is included in the GPL project’s cost estimate.

Tuticorin

The subsidiary in India, Felguera Grúas India, is involved in an arbitration against customer Tuticorin, claiming a total amount of approximately €15,469 thousand for unpaid invoices and the reimbursement of guarantees. Tuticorin has filed a counterclaim against FGI for €80.2 million for hypothetical costs to complete the project, additional costs, lost earnings and interest.

In April 2018, the customer enforced the guarantees, for €5,516 thousand. This amount is included in the arbitration.

Trade and other receivables includes an amount of €3,144 thousand for amounts invoiced and receivable for the project, €2,167 thousand for completed work pending certification, and €5,516 thousand of guarantees enforced by the customer.

The Group reassessed the recoverability of the receivables related to this arbitration based on an opinion of the legal advisors in India, the Company’s internal evaluation and the considerations and items admitted and applied by the courts in the rulings issued on 30 August 2018 for the arbitration with Navayuga Engineering Company Ltd. and Krisnnapatnam Port Company Ltd., setting aside a provision of €754 thousand.



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

The directors consider that the provision recognised covers that maximum amount of risk for Duro Felguera and, in the legal opinion of its external advisors, expect the amounts claimed to be recoverable. They do not expect any additional liabilities to arise that might have a significant effect on the accompanying consolidated financial statements.

37. Commitments

Commitments to acquire fixed assets

Commitments to make investments at the reporting dates that were not made yet are as follows:

	€ thousand	
	2018	2017
Fixed assets	-	297

38. Related party transactions

The following transactions were carried out with related parties:

a) Purchases of goods and services

	€ thousand	
	2018	2017
Purchases of goods and services		
- Associates	-	200
- Related parties	-	14
	-	214

b) Key management and director compensation

	€ thousand	
	2018	2017
Salaries and other short-term remuneration:		
- Members of the Board of Directors	976	1,061
- Management personnel	1,109	2,536
- Salaries and other short-term employee benefits	1,109	2,536
- Share-based payments	-	-
	2,085	3,597

The Chief Executive Officer is entitled to a long-term variable remuneration of up to three years' the fixed remuneration if the share price reaches a specified amount by 31 December 2021, which marks the end of the long-term variable remuneration. At 31 December 2018, no impact in this connection was recognised since it was not significant.



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

c) Dividends and other benefits

	€ thousand	
	2018	2017
Dividends and other benefits distributed:		
- Significant shareholders (Note 16)	-	-
	-	-

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

	€ thousand	
	2018	2017
Receivables from related parties (Note 12):		
- Associates	-	174
- Related parties	-	-
	-	174
Payables to related parties (Note 23):		
- Associates	17	214
- Related parties	-	-
	17	214

e) Loans to related parties

	€ thousand	
	2018	2017
Opening balance	54	72
Additions	-	-
Loan repayments received	(19)	(18)
Closing balance	35	54

Loans relate solely to management personnel and bear interest at the 1-year Euribor rate.

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.



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

This information relates to the activities of the directors with respect to Duro Felguera, S.A. and its subsidiaries. In 2018, Ricardo de Guindos Latorre, Ignacio Soria Vidal, Covadonga Betegón Biempica, Alejandro Legarda Zaragüeta, Juan Miguel Sucunza Nicasio, Marta Elorza Trueba and Loreto Ordóñez Solís were appointed as independent directors, and José María Orihuela Uzal as Chief Executive Officer.

In addition, Inversiones Rio Magdalena, S.L., Inversiones Somió, S.L. and Inversiones El Piles resigned as directors, while Ángel Antonio del Valle Suárez, José Manuel García Hermoso, Elena Cabal Noriega and Covadonga Betegón Biempica also stepped down as directors.

39. Joint ventures

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

	€ thousand	
	2018	2017
Assets:		
Non-current assets	-	21
Current assets	63,170	83,353
	<u>63,170</u>	<u>83,374</u>
Liabilities:		
Non-current liabilities	-	(87)
Current liabilities	(106,876)	(115,016)
	<u>(106,876)</u>	<u>(115,103)</u>
Net assets	<u>(43,706)</u>	<u>(31,729)</u>
Income	9,009	26,582
Expenses	(13,650)	(63,530)
Profit after tax	<u>(4,641)</u>	<u>(36,948)</u>

40. Other information

a) Average number of Group employees by category

	2018	2017
Directors	1	1
Senior managers	5	10
Employees	1,275	1,446
Unskilled workers	476	739
	<u>1,757</u>	<u>2,196</u>



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

b) Number of men/ women by category

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

	2018			2017		
	Men	Women	Total	Men	Women	Total
Directors	1	-	1	-	-	-
Senior managers	5	-	5	10	-	10
Other	1,291	262	1,553	1,633	336	1,969
	1,297	262	1,559	1,643	336	1,979

At 31 December 2018, there were 14 employees with a disability of greater than 33% (2017: 20 employees), all men, included under "Other".

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 of all Group companies amounted to €872 thousand (2017: €624 thousand of fees accrued by E&Y for the audit of the financial statements of all Group companies).

Other non-audit services provided in 2018 by companies using the E&Y brand amounted to €541 thousand (2017: €608 thousand).

41. Events after the reporting period

On 1 March 2019, the Group received the final partial ruling issued by the Singapore International Arbitration Centre (SIAC) on the arbitration between the Group and Samsung C&T Corporation over the Roy Hill project. The ruling requires payment to the Group for all items claimed, plus interest and costs to be stipulated in a further ruling.

Based on the wording of the ruling issued, at 31 December 2018 the Company cancelled part of the provisions recognised (Note 26), recognised the portion of interest that is virtually certain as an asset (Note 31) in accordance with the assessment of the Group's external legal advisers and recognised the related liabilities with third parties, after assessing the related risks, in accordance with the assessment of the Group's external legal advisers and the application of "back to back" provisions in the contracts signed with suppliers.



DURO FELGUERA, S.A. AND SUBSIDIARIES

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

The accounting effects of this ruling were recognised in the accompanying consolidated financial statements, with a positive impact on consolidated equity and profit of €38 million after recognising the related interest (Note 31) and partially reversing the provisions recognised in previous years (Note 26). Moreover, during the execution of the Roy Hill project and the arbitration proceeding with Samsung C&T Corporation, the Group incurred approximately €40 million of legal costs, which were recognised as expenses in this and previous years.

42. Additional note for English translation

The consolidated financial statements for the year ended 31 December 2018 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

2018 MANAGEMENT REPORT

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

2018 Management Report



DURO FELGUERA, S.A. AND SUBSIDIARIES

2018 MANAGEMENT REPORT (€ thousand)

CORPORATE INFORMATION

Organisational structure

The Group specialises 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. In 2018, under the disposal plan, the Group disposed of subsidiaries Núcleo Comunicación y Control, and Duro Felguera Rail (80%), which were included in the Manufacturing and others business segment.

The parent company's Board of Directors is the chief operating decision-maker and is composed of eight members (including six independent directors) in accordance with the Bylaws, which stipulate that the Board of Directors shall be formed by a minimum of six (6) and a maximum of twelve (12) members. The main responsibilities of the Group's Board of Directors consist of defining the strategy, responding to shareholders, authorising for issue the annual financial statements and presenting them to the Annual General Meeting, and supervising financial management and reporting.

Business model

DF is a knowledge and person-based company, specialising in projects that are tailored to its customers' needs. Given its international presence, DF must analyse and manage risks in highly diverse economic, political and social environments. The Company currently obtains 91% of revenue from projects developed outside of Spain.

GENERAL PERFORMANCE

	€ thousand		% Change
	2018	2017	
Revenue	421,325	624,126	-32.49%
EBITDA ⁽³⁾	(124,396)	(173,032)	28.11%
Profit/(loss) before tax	78,892	(218,123)	136.17%
Net financial debt ⁽⁴⁾	3,479	271,881	98.72%
Order intake ⁽²⁾	78,792	576,012	-86.32%
Order backlog ⁽¹⁾	779,324	1,161,749	-32.92%

(1) Order backlog: Defined as the amount pending execution of signed contracts held by the Company, calculated by subtracting the amount executed from the total amount of each contract.

(2) 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.

(3) EBITDA is earnings before interest, tax, depreciation and amortisation. Its calculation is disclosed in Note 5.

(4) Net financial debt: defined as the amount of gross financial debt (Note 22) less cash and cash equivalents (Note 15) and derivative financial instruments.



DURO FELGUERA, S.A. AND SUBSIDIARIES

2018 MANAGEMENT REPORT

(€ thousand)

At the end of July 2018, a €125.7 million capital increase was carried out, along with a financial debt restructuring affecting €318 million, resulting in: (1) the cancellation of a liability for €233 million via the conversion of Class A and Class B Convertible Bonds, (2) the conversion of the remaining liability into a five-year syndicated loan for €85 million, and (3) the extension of existing guarantees and arrangement of a new line of guarantees for up to €100 million.

Revenue was 32% lower than in 2017, as the Company's business was impacted severely by liquidity issues arising from its financial position, making it difficult to contract new projects and causing a decline in production.

EBITDA amounted to a negative €124.4 thousand, mostly as a result of the following factors: (i) losses on certain projects of €97.4 million, (ii) restructuring costs of €4.6 million, (iii) extraordinary provisions of €55.2 million (mostly related to impairments of receivables in Argentina and Venezuela) and (iv) the reversal of unused provisions for the Roy Hill project of €31 million.

Order intake in the year amounted to €78.8 million, undermined considerably by the Company's financial position in 2018. However, in the first two months of 2019 it managed to sign contracts with major customers, thereby reversing the trend.

At 31 December 2018, gross financial debt amounted to €106.6 million, including €8 million related to the Class B Convertible Bonds, which in no case will result in a cash outflow for the Group. The main financial liability is a syndicated loan for €85 million with maturities in 2021, 2022 and 2023 of €15 million, €20 million and €50 million, respectively. Therefore, the Group does not have any significant short-term maturities. Cash at 31 December 2018 stood at €103.1 million, leaving net financial debt of €3.5 million.

BUSINESS OUTLOOK

As noted in this section of the management report for the first half, the Group's priority is on undertaking a series of actions aimed at reinforcing the Group's main management areas.

Corporate governance and organisational structure

After the end of July 2018, once the €125.7 million capital increase had been carried out, the Group added four new independent directors, replaced the majority of the members of the Appointments and Compensation Committee and replaced all the members of the Audit Committee.

On 1 December, José María Orihuela Uzal was hired as Chief Executive Officer, thereby separating the positions of Chairman and Chief Executive.

The Group also added a sales manager, a human resources manager, a financial director, and a contract management director. Two more managers are expected to be added soon: a management control director and a legal advisor specialising in international EPC contracts. The need for further reinforcements, essential in project management areas, is still being assessed.



DURO FELGUERA, S.A. AND SUBSIDIARIES

2018 MANAGEMENT REPORT

(€ thousand)

In addition, the following management processes were reinforced with the assistance of independent experts: (i) Regulatory Compliance, (ii) Risk, (iii) Internal Control over Financial Reporting (ICFR), and (iv) Internal Audit.

Strategic relaunching

The Group is currently revising its strategic plan, which will be presented at the next Annual General Meeting and will enhance the Company's technical know-how and international capacity in the divisions and market segments that have historically been the most successful.

This plan also focuses geographically on Spain, recouping lost market share, and internationally in countries where past experience has been positive. It will also take into account new energy sectors, e.g. renewable energies.

The plan will be based on project structuring through alliances, in a bid to minimise exposure and increase commercial reach to access a greater number of projects.

Cleaning up the situation of old projects

After the capital increase was carried out, an independent technical consultant was engaged to conduct an initial review of the revenue and cost estimates of the main projects under way.

As a result of this review, as explained in the financial report as at 30 June 2018, authorised for issued in September 2018, provisions amounting to €29 million were set aside as a lower overall contract margin and other impairments amounting to €9 million were identified that had not been included in the strategic plan dated 13 June 2018.

As part of the FY 2018 close, a new review was carried out, this time of all revenue and cost estimates of ongoing projects and potential indications of impairment in customer receivables.

As a result of this new review, cost over-runs were uncovered in ongoing projects, mainly after reviewing the projects' technical specifications, offers to suppliers and extensions of terms. This led to a reduction in total income of approximately €81 million, of which €73 million were taken to profit or loss in 2018. New allowances were made mostly for four projects at varying stages of completion in Algeria, the Arab Emirates, Peru and Costa Rica (Note 26).

There were also indications of impairment on receivables amounting to approximately €37 million, in addition to those identified in the financial report as at 30 June 2018, concentrated primarily in Argentina and Venezuela.



DURO FELGUERA, S.A. AND SUBSIDIARIES

2018 MANAGEMENT REPORT

(€ thousand)

As for the claim against Samsung C&T for the Roy Hill project, on 1 March 2019, the Group received a final partial ruling by the Singapore International Arbitration Centre (SIAC). The positive impact on consolidated equity and profit arising from this ruling amounts to €38 million from the recognition of the related interest (Note 31) and the partial reversal of provisions recognised in previous years (Note 26). Moreover, during the execution of the Roy Hill project and the arbitration proceeding with Samsung C&T Corporation, the Group incurred approximately €40 million of legal and internal costs, which were recognised as expenses in this and previous years.

The combined effect on equity of allowances and impairments, for a total of approximately €156 million, made after the capital increase, coupled with the positive effect of the ruling on the arbitration with Samsung for €38 million explain virtually the entire amount of negative EBITDA of €124.4 million, enabling the parent company to show positive equity of €12.4 million. The Board of Directors will call a General Meeting of Shareholders within the legal deadline to unveil the new Strategic Plan and propose a reduction in capital for the amount required to restore equity.

The Group is also involved a series of negotiations and has outstanding claims with some customers amounting to approximately €95 million, in addition to the €22.6 million already recognised at year-end 2018. Part of the result of these claims, currently uncertain, will become known over the course of 2019 and should have a positive impact on the Company's cash position and profit or loss for the year.

The Group has not arranged any new borrowings since the recent capital increase, carried out around the end of July 2018. However, in its updated cash forecasts, it has considered the need to raise additional funding of €60 million in 2019, for which it is currently in talks with lender banks and its main customers.

KEY INDICATORS

The key indicators (in thousand euros and percentages) are as follows:

	<u>2018</u>	<u>2017</u>
EBITDA	(124,396)	(173,032)
Working capital	37,205	(207,141)
Net financial debt	3,479	271,881
Order backlog	779,324	1,161,749
Basic earnings per share	0.05	(1.77)
Gearing ratio	29.00%	254.01%

MAIN RISKS AND UNCERTAINTIES

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.



DURO FELGUERA, S.A. AND SUBSIDIARIES

2018 MANAGEMENT REPORT (€ thousand)

To minimise the effect of future cost increases for these reasons, the Group includes a scaled price review in contracts of this kind pegged to consumer price indices, as in the case of its contracts in Venezuela and Argentina.

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

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) 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, where possible, 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.

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.



DURO FELGUERA, S.A. AND SUBSIDIARIES

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(€ thousand)

Credit risk

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

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

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

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

Our main customers represent 62% of "Trade and other receivables" at 31 December 2018 (2017: 57%), 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.

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 monitors the forecasts for the Group's liquidity reserves based on estimated cash flows. The completion of the financial restructuring and capital increase explained in Note 1 has resulted in:

- A cash inflow of €125.7 million from the capital increase
- A reduction in financial debt of €225 million after its conversion into convertible bonds, which will not imply any cash outflow for their redemption

In addition, the Company continued to dispose of non-core assets in 2018 to bolster its liquidity. In February, it concluded the sale of the Vía de los Poblados and Las Rozas office buildings (Note 6) for €27.4 million, giving rise to a net cash inflow of €6.5 million after cancellation of the related financial debt of €20.9 million. It also sold 100% of subsidiary Núcleo de Comunicación y Control, S.L. and 80% of Duro Felguera Rail, S.A., respectively, resulting mainly in a cash inflow of €13.6 million and a reduction in financial debt of €5.9 million (Note 6).



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(€ thousand)

To execute its projects, the Group is in talks with customers and financial institutions to secure additional liquidity either through advances from the customers or cash injections. The cash forecast, based on conservative assumptions, includes the effects of these negotiations. It does not consider short-term inflows from the Termocentro project given the level of political uncertainty at present, or significant net amounts from ongoing litigation in India given the length of arbitration proceedings.

Operational risk

Duro Felguera is exposed to the traditional risks facing companies that operate in the sector of executing EPC or turnkey projects. One of the main risks lies in estimating costs and terms in the bidding stage. During the construction phase, deviations in purchasing and procurement may arise, as well as alterations in the detailed engineering, differences in the estimate of performance of teams in project execution, and deviations in the partial or full terms of the projects. These projects require good coordination among the Company's technical departments and closing monitoring of cost control and execution periods.

TREASURY SHARE TRANSACTIONS

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 2018, the Company did not hold any treasury shares. At 31 December 2017, the parent company held 16 million treasury shares for an amount of €87,719 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

On 1 March 2019, the Group received the final partial ruling issued by the Singapore International Arbitration Centre (SIAC) on the arbitration between the Group and Samsung C&T Corporation over the Roy Hill project. The ruling requires payment to the Group for all items claimed, plus interest and costs to be stipulated in a further ruling.

Based on the wording of the ruling issued, at 31 December 2018 the Company cancelled part of the provisions recognised (Note 26), recognised the portion of interest that is virtually certain as an asset (Note 31) in accordance with the assessment of the Group's external legal advisers and recognised the related liabilities with third parties, after assessing the related risks, in accordance with the assessment of the Group's external legal advisers and the application of "back to back" provisions in the contracts signed with suppliers.



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The accounting effects of this ruling were recognised in the accompanying consolidated financial statements, with a positive impact on consolidated equity and profit of €38 million after recognising the related interest (Note 31) and partially reversing the provisions recognised in previous years (Note 26). Moreover, during the execution of the Roy Hill project and the arbitration proceeding with Samsung C&T Corporation, the Group incurred approximately €40 million of legal costs, which were recognised as expenses in this and previous years.

ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report for 2018 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 2018 and 2017 are as follows:

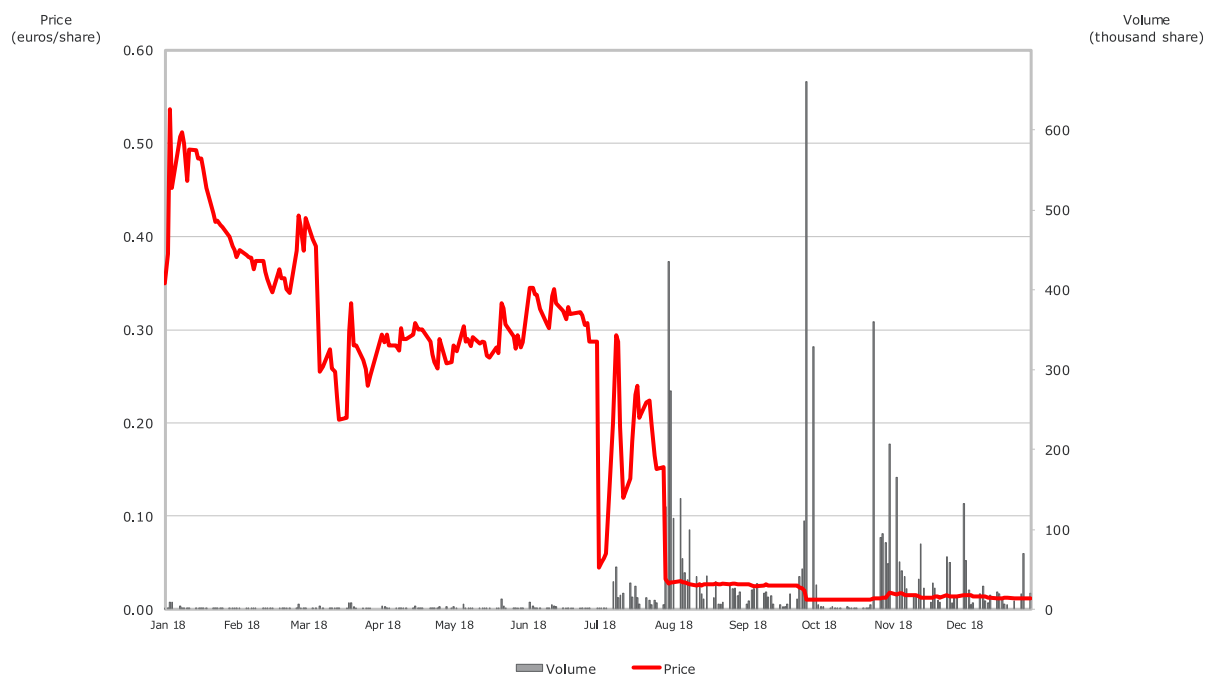
	<u>2018</u>	<u>2017</u>
Closing price	0.0115	0.33
Period in the year	-96.52%	-70.54%
High (€)	0.598	1.48
<i>Date of high</i>	05/01/2018	17/02/2017
Low (€)	0.0074	0.33
<i>Date of low</i>	26/10/2018	29/12/2017
Trading volume ('000 shares)	5,785,225	155,645
Cash (€ thousand)	230,128	136,548
Number of shares (x 1.000)	4,800,000	160,000
Market cap at year-end (€ thousand)	55,200	52,800

Source: Madrid Stock Exchange



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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

2018 MANAGEMENT REPORT (€ thousand)

NON-FINANCIAL STATEMENT

The non-financial statement forms an integral part of this consolidated directors' report.

Letter from the Chairman

Dear reader,

I would like to begin by expressing my sincere thanks for your interest in this report, which describes our Corporate Social Responsibility (CSR) commitments and provides an account of the Company's performance in 2018.

As you know, Corporate Social Responsibility and its related reporting is an aspect of business that has acquired more relevance in recent years. It is now practically at the same level as a company's economic and financial information. However, Duro Felguera's commitment to sustainability, ethics and good practice in relations with its stakeholders goes back for decades.

Our adherence to the **United Nations Global Compact** in 2002 was a formal statement of that commitment in the international context, and we adopted the Ten Principles as our own, in the areas of human rights, labour, the environment and anti-corruption. The Ten Principles derive from the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on the Environment and Development; and the United Nations Convention against Corruption.

Our commitment to these principles is neither casual nor cosmetic. At Duro Felguera we are firmly convinced, for example, that respect for the environment in project execution has a direct impact on improving the Group's competitiveness. We know that adopting the best management practices based on innovation, efficiency, profitability and sustainability results in a successful business model. We are well aware that our commitment to continuous training actions for our employees helps our bottom line. Our strict safety and prevention policies for employees, facilities and project sites certainly drive employee satisfaction, but are also regarded positively by shareholders and clients. In short, at DF we take up sustainable and socially responsible business practices and goals as part of our corporate strategy, ensuring strict compliance with current legislation, internal regulations, and good governance guidelines. We have adopted the best business practices in Corporate Social Responsibility as our own.

In 2018, Duro Felguera successfully completed its restructuring process, bringing its equity and financial position back to a place of strength. Throughout this transformation, Duro Felguera had the backing of its key lenders, who refinanced Duro Felguera's liabilities and provided a line of bank guarantees to enable the Company to make strong forward strides in the coming years. Moreover, Duro Felguera successfully completed the capital increase launched in June 2018, which demonstrated a market commitment to the Company's future. The combination of these milestones drives Duro Felguera forward to a socially responsible model. In addition, our Company has started a far-reaching process of internal transformation: creating and reinforcing key positions in the organisation with top-level professionals. These changes will continue to be explored and strengthened over the coming years. Our main goal is to achieve a more efficient business and management model. This naturally implies an even more demanding environmental, social and regulatory commitment.



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(€ thousand)

The new shareholder structure that emerged after the capital increase in July 2018 led to the formation of a **highly professional and independent new Board of Directors**. We made progress towards gender parity by appointing, for the first time in the Company's history, two independent women directors.

I had advised on the process of change for several months as an outside advisor. Then, in November 2018, the Board of Duro Felguera placed me at the helm by appointing me as CEO. One of the first initiatives to be put forward after my appointment was a new organisational structure, designed for profitable project execution, enhancement of Duro's hallmark technical excellence, and the ability to attract new orders with controlled risks.

Towards the end of 2018, the Board of Directors approved a new **Risk Control and Management Policy**. The goal is to specify the key principles and guidelines for control and management of all significant risks to which Duro Felguera may be exposed in all areas (strategic, operational, financial or compliance). The new policy assigns risk management responsibilities, establishes a clear system for risk identification, assessment and monitoring, and provides a response to each risk.

In our effort to reinforce Duro Felguera's commitment to business ethics and transparency in all its fields of action, a new **Code of Conduct** was approved in December 2018. The Code sets down corporate principles to guide the DF employees' behaviour and decision-making.

Late in the year, the Company launched its **Ethics Line**: platform that is accessible both internally and externally and managed independently, to ensure the impartiality of any investigation that might arise from a report of regulatory breach, irregular conduct or bad practice contrary to the Code of Conduct and/or the corporate Crime Prevention Model. In Duro Felguera's new Code of Conduct, we wanted to expressly set out our commitment to fundamental rights and freedoms, with a special emphasis on work-life balance, equal opportunities, non-discrimination and DF employees' right to training and career development.

The new Code of Conduct reflects the tradition of Duro Felguera's firm commitment to the **occupational health and safety** of its employees. This goal is backed by last year's results: in 2018 there was a further decrease in the number of accidents involving sick leave, thus confirming the continued decrease in the number of occupational accidents at DF. This again is the best figure recorded since the Joint Prevention Service was first set up in 2003. Compared to the average from the three previous years (2015-2017), the number of these occupational accidents fell by 38.7%, leaving an incident rate for the DF Group of 1.7%.

Last but not least, Duro Felguera's Corporate Social Responsibility strategy focuses on **developing the local communities** and territories where the Group operates. The Company's approach to project execution is rigorously compliant with the labour regulations and standards of each location. We are firmly committed to respect for the environment and seek to get involved in developing the local community.



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The publication on 28 December of the new *Ley 11/2018* on non-financial and diversity reporting provided an impetus for companies to become more aware of our role as key players in the responsible and sustainable development of society and to enhance the way in which we communicate our strategy, goals and performance in this area. Our company was originally a pioneer in corporate social responsibility initiatives that later became established best practices: as early as 1875, Duro Felguera set up and funded schools for its employees' children. A few years later, the Company founded a school of arts and crafts for its own employees, and also open to anyone interested in improving their skills. The firm created infirmaries (which survive today in the form of Sanatorio Adaro, a leading centre for several cutting-edge treatments), a mining rescue brigade, and a network of cooperative non-profit grocery shops, while sponsoring a wide range of cultural and sports associations. It is in that spirit and with that history behind us that we aim to continue building a sustainable and socially responsible Duro Felguera, in the belief that helping our employees, clients, suppliers, partners, shareholders and the wider community is ultimately to the benefit of 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 our 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.



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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. DF 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; thermosolar and photovoltaic plants; desulphurisation and denitrification in 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).



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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 specialise 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.

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.

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.



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1.3 DF in the world

Duro Felguera is currently present around the world, through its commercial offices or the projects that the Company has underway in different regions. The countries where the Company is present are:

SAUDI ARABIA
ALGERIA
ARGENTINA
AUSTRALIA
BAHRAIN
BELGIUM
BELARUS
BRAZIL
CANADA
CHILE
COLOMBIA
COSTA RICA
UAE (DUBAI)
INDIA
INDONESIA
JAPAN
MAURITANIA
MEXICO
PERU
ROMANIA
SPAIN
VENEZUELA





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1.4 Strategy

In June 2018, Duro Felguera put forward its Strategic Plan for the period 2018-2021 (currently under review). The guidelines are:

- Pivoting market activity towards more profitable and less risky markets and clients by working closely with technological partners.
- Improved management at three levels:
 - » Reinforcing the Board and corporate governance by appointing new directors with relevant experience for the business and further developing the control and compliance structure.
 - » Streamlining corporate functions and aligning them with business needs.
 - » Reorganising business lines to ensure application of best practices in project management, combined with enhanced use of resources.
- Lowering risk by rebalancing and diversifying business lines; rigorous risk control that mitigates EPC fixed-price terms, assurances and project size.
- Lowering structural costs while reinforcing management teams.

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.

DF's Corporate Social Responsibility Policy and Code of Conduct are publicly available on our website.

In 2018, DF focused on reaching an agreement to refinance financial debt and updating and reinforcing corporate policies and functions. Specifically, in 2018 we updated the risk control and management policy, the Code of Conduct and the risk map. Work was also done on improving the whistleblower channel, diagnosing and improving ICFR, appointing a Risk Officer, strengthening the internal audit function and evaluating, redefining and updating the risk map.



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2.1 Ownership structure

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

* Shares are not divided into different classes with different rights.

Direct and indirect holders of significant shareholdings, excluding directors

Name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
ABACCO CAPITAL SGICC, S.A.	0	248,148,148	5.170
SABINO GARCÍA VALLINA	0	149,932,940	3.124
ÁLVARO GUZMÁN DE LÁZARO MATEOS	0	147,910,112	3.081
INDUMENTA PUERI, S.L.	0	457,179,474	9.525
JUAN JOSÉ RODRÍGUEZ NAVARRO OLIVER	0	200,000,000	4.167

Name or corporate name of indirect owner of the interest	Through: Name or corporate name of direct owner of the interest	Number of voting rights
ABACCO CAPITAL SGICC, S.A.	LA MUZA INVERSIONES, SICAV, S.A.	248,148,148
SABINO GARCÍA VALLINA	TSK ELECTRÓNICA Y ELECTRICIDAD, S.A.	149,932,940
ÁLVARO GUZMÁN DE LÁZARO MATEOS	AZVALOR IBERIA FI; MIMOSA CAPITAL SICAV, AZVALOR INTERNACIONAL; AZVALOR VALUE SELECTION SICAV SA, CUENTA GESTIONADA SALUS (ASPEN TRUST SERVICES); CUENTA GESTIONADADA SALUS	147,910,112
INDUMENTA PUERI, S.L.	GLOBAL PORTFOLIO INVESTMENTS, S.L.	457,179,474
JUAN JOSÉ RODRÍGUEZ- NAVARRO OLIVER	GLOBAL INCOME S.A. S.A. SPF	200,000,000



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Treasury shares

Number of direct shares	Number of indirect shares	% of total share capital
0	0	0

Estimated free float

Estimated free float	74.94%
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2.2 Corporate governance

Duro Felguera's [Corporate Governance Policy](#) sets out the 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 of the Good Governance Code 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 the Committees are regulated by the provisions of the *Ley de Sociedades de Capital* [Corporate Enterprises Act], the Articles of Association and the Internal Regulations of the Board.

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 strategy, being accountable to shareholders, proposing dividend distributions at the General Meeting, and supervising 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 Committee and Nomination and Remuneration Committee) have a balanced membership as to gender and professional background.



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At 31 December 2018, the Board was made up of eight Directors, six of whom were independent, in accordance with the Company's Articles of Association:

Name of director	Category	Position	Length of tenure	Method of selection
JOSÉ MARÍA ORIHUELA UZAL	Executive	Chief Executive Officer	Since 30 November 2018	Co-option by the Board
ACACIO FAUSTINO RODRIGUEZ GARCÍA	Other external	Chairman	Since 26 April 2001	Resolution at general meeting
ALEJANDRO LEGARDA ZARAGÜETA	Independent	Director	Since 23 July 2018	Co-option by the Board
JUAN MIGUEL SUCUNZA NICASIO	Independent	Director	Since 23 July 2018	Co-option by the Board
RICARDO DE GUINDOS LATORRE	Independent	Director	Since 29 March 2018	Co-option by the Board, ratified at the annual general meeting of 2018
IGNACIO SORIA VIDAL	Independent	Director	Since 29 March 2018	Co-option by the Board, ratified at the annual general meeting of 2018
MARTA ELORZA TRUEBA	Independent	Director	Since 30 August 2018	Co-option by the Board
LORETO ORDOÑEZ SOLIS	Independent	Director	Since 30 November 2018	Co-option by the Board



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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 contributes most to the Company shall be considered. However, where two profiles are objectively similar, priority will be given to the least represented gender.

At year-end, 25% of the Board were women.

Committees

Audit Committee

On 31 December 2018, the Committee comprised members elected by the Board from among independent Directors:

Name of director	Position	Category
MARTA ELORZA TRUEBA	Chairman	Independent
ALEJANDRO LEGARDA ZARAGÜETA	Director	Independent
JUAN MIGUEL SUCUNZA NICASIO	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 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 2018, the Audit Committee met 15 times.



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The functions of the Audit Committee are to:

- » Oversee financial reporting and the content of the audit engagement, requiring that the auditor's opinion on the financial statements and the content of the report are drafted clearly and accurately.
- » Review the Company's accounts from the standpoint of correct application of generally accepted accounting principles.
- » Provide a supporting channel for the relationship between the Board and the auditors.
- » Evaluate the findings of each audit and the responses by the management team to the recommendations made by the auditors.
- » Mediate in the case of discrepancies between the opinions of the management team and the auditors with respect to the principles and standards applicable to the preparation of the financial statements.

Supervise corporate governance, ensuring the transparency of the Company's actions, compliance with best practice 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.

Nomination and Remuneration Committee

The Committee currently has three members. As last amended in November 2018, the membership is:

Name of director	Position	Category
JUAN MIGUEL SUCUNZA NICASIO	Chairman	Independent
ALEJANDRO LEGARDA ZARAGÜETA	Director	Independent
IGNACIO SORIA VIDAL	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 2018, the Nomination and Remuneration Committee met 13 times.



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The functions of the Nomination and Remuneration Committee are to:

- » Examine the skills, knowledge and experience required for the Board, and set a representation target for the under-represented sex.
- » Define the duties and capabilities necessary in candidates who shall fill each vacancy and evaluate the time and dedication necessary in order to effectively fulfil their role.
- » 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.
- » Report on proposed appointments of other Directors and senior executives and on the key terms of their contracts.
- » Propose to the Board of Directors, the Directors' and senior executives' remuneration policy and of whoever else performs senior management duties under the direct supervision of the Board of Directors, the Executive Committee or the Chief Executive Officers, in addition to the individual remuneration and other contractual conditions of executive directors, ensuring compliance with the same.
- » Research and organise the succession of the Chairman of the Board so that said succession can be processed in an orderly and properly planned manner.

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, so there have been no significant changes.



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Remuneration to Directors and senior management

	2018
Directors ¹	122
Management ²	221.8

* (€ thousand)

Remuneration rate 2018

Remuneration rate (%)	Directors	Managers
Pension plans and funds	0%	0%
Fixed remuneration	100%	75%
Variable remuneration	0%	25%
Items under the Company's articles	0%	0%
Other forms of remuneration	0%	0%

2.3 Governance of Corporate Social Responsibility

The **Nomination and Remuneration Committee** evaluates and formally approves the sustainability report, overseeing the structure of the paper and ensuring that all the Company's key matters are addressed. In addition, it is responsible for compliance with the rules of Corporate Governance, and therefore:

- Oversees the **transparency** of the Company's operations.
- 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 of **supervising non-financial risk**, ethics, and business conduct.
 - Stakeholder engagement and dialogue.

¹ For further information, please see the Directors' Remuneration Report.

² Currently there are no women among senior management.



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The report issued by the Nomination and Remuneration 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 Committee is also concerned with rules of conduct and compliance in the different spheres of the Company, and therefore must:

- 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

In 2018, Duro Felguera strengthened its compliance and control mechanisms by creating its Compliance Department and appointing a Compliance Officer.

The Company provides a global framework that enables all employees to identify their legal obligations. This framework, which aims to strengthen stakeholders' confidence in DF, 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.

Alongside its high-level standards, Duro Felguera has cross-sectional policies and standards in support, including:



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- CSR policy: the Company's activity shall comply with currently applicable legislation in all countries in which it operates, enforce Duro Felguera's internal code of conduct, and implement the best practices of good corporate governance.
- Management of Agency Contracts and Memorandums of Understanding: regulating the internal approval procedure ahead of the signing of any contract that involves a third party directly or indirectly acting on behalf of any of the companies of the DF Group and in any market process.

In addition, the Company has policies and regulations that comply with legal obligations and regulatory requirements relating to the Company's own activity. Some of these policies address Risk Management, Corporate Governance, Remuneration, Selection of Directors or the Internal Code of Conduct.

For further information on the policy, please see 6.1.1 "CSR Policy" in this report.

3.1 Code of conduct

In December 2018, the Board approved the latest version of the Code to meet the requirements of stakeholders and the markets. 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 communicate the contents of the new Code, the Company has included specific training actions for all employees in its 2019 Training Plan. At the date of this report, moreover, the Code of Conduct is part of the information received by new entrants and is available to all employees on the Company's intranet.

The code of conduct is published on the website, in English and Spanish, and is available to all stakeholders.



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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, DF has an "Ethics Line" or whistleblower channel available 24 hours a day, 7 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, DF Group employees can access the relevant web page using the links provided on the corporate intranet and website. Interested third parties who do or might have a relationship with the DF Group can access the Ethics Line on the web portal by proving their identity.

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 of the parties, equal opportunities, defence, presumption of good faith, principle of proof and right to data protection.

Duro Felguera's Head of Compliance is primarily responsible for investigating complaints, under the supervision of the Compliance Committee. 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, 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 2018, two complaints were received over the "Ethics Line".

Duro Felguera offers direct access to the Ethics Line:

<https://lineaetica.durofelguera.com>

3.2 Compliance and Anti-Corruption

The creation of an independent compliance area, reporting directly to the Audit Committee, reinforces the Company's commitment to transparency and ethics, encouraging all stakeholders to participate in a corporate culture based on integrity.

In January 2018, Duro Felguera's Compliance Officer was appointed, with a brief to deploy the compliance model throughout the Company.



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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 Committee.

Anti-corruption measures

The DF Group rejects 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 DF Code of Conduct forbids us from making political contributions or becoming involved in politics in any way. 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.

Over the year, no corruption issues were reported to us. However, proceedings concerning alleged corruption are still underway at the Audiencia Nacional, Spain's national high court. For further information, see Note 36 to the 2018 financial statements.

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 our activities.

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. DF 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: DF carries out an exhaustive analysis of the 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.



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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

DF properly fulfils its tax obligations under the rules of each country in which it operates.

Grants received

During 2018, due to the situation of the Group's negative equity at 31 December 2017, no government subsidies were received for R&D, innovation, energy efficiency, occupational risk prevention or investment. Only €48,949.07 was received as a rebate in social security contributions: a subsidy for continuous training.

4. Sustainable growth

4.1 Main economic indicators

The financial position of Duro Felguera in 2018 was marked by debt refinancing. The main milestone of the year was to secure liquidity and thus sustainable debt that matches the possibilities of repayment and cash generation.

Another milestone was the capital increase of €125.7 million. All newly issued shares were subscribed for.

In 2018 DF began a process of enhancing internal control over financial reporting (ICFR).

Key financial indicators	2018	2017
Revenue	421,325	624,126
EBITDA	(124,396)	(173,032)
Working capital	37,205	(207,141)
Net debt	3,479	271,881
Contracts	78,792	576,012
Order backlog	779,324	1,161,749
Basic earnings per share	0.05	(1.77)
Diluted earnings per share	0.04	(1.77)
Leverage ratio	29.00%	254.01%

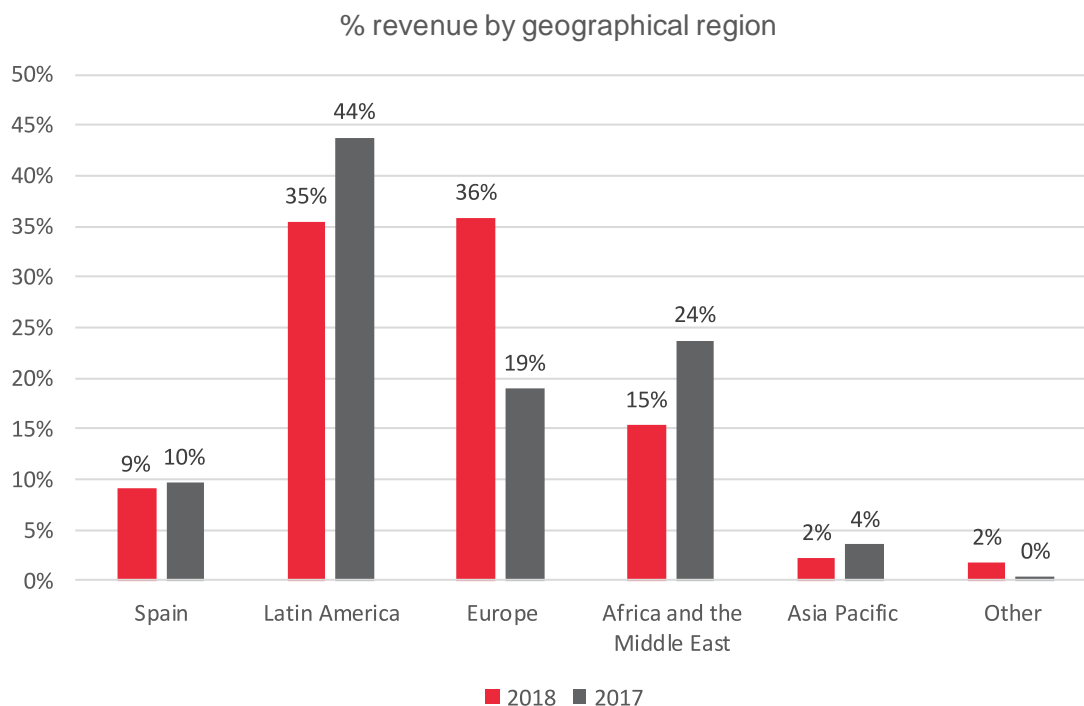


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The following table presents the breakdown of revenue at year-end by the geographical distribution of the entities generating the revenue as presented to the Board:

Revenue by geographical region	2018	2017
Spain	39,976	60,343
Latin America	149,209	273,093
Europe	150,785	118,215
Africa and the Middle East	64,531	148,060
Asia Pacific	9,370	21,961
Other	7,454	2,454
TOTAL	421,325	624,126



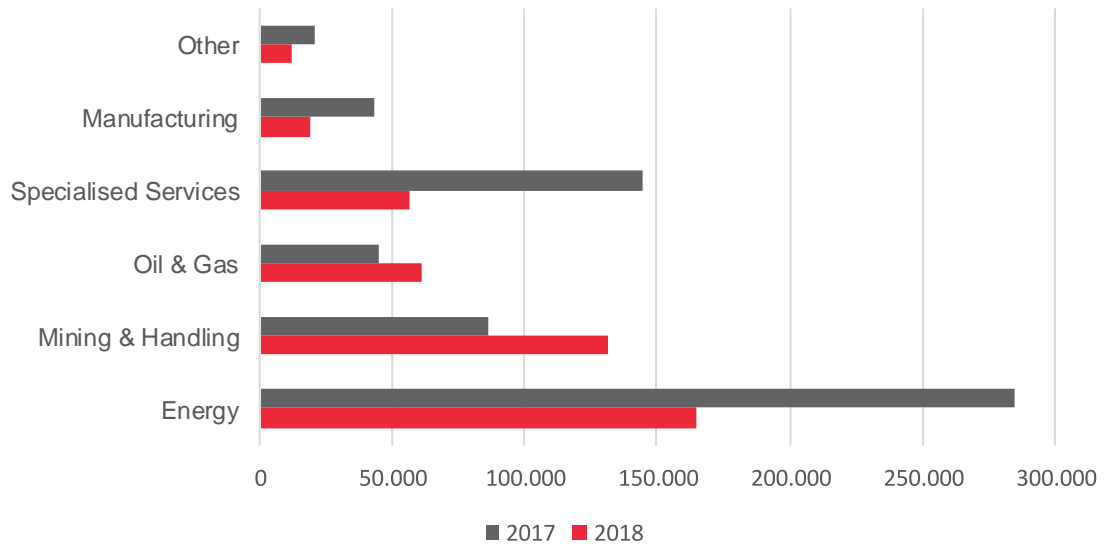
Revenue by activity, graphs for two financial years and comparison

Business lines	2018	2017
Energy	142,995	284,842
Mining & Handling	131,494	85,909
Oil & Gas	47,132	45,163
Specialised Services	68,177	144,417
Manufacturing	19,459	43,293
Other	12,068	20,502
TOTAL	421,325	624,126

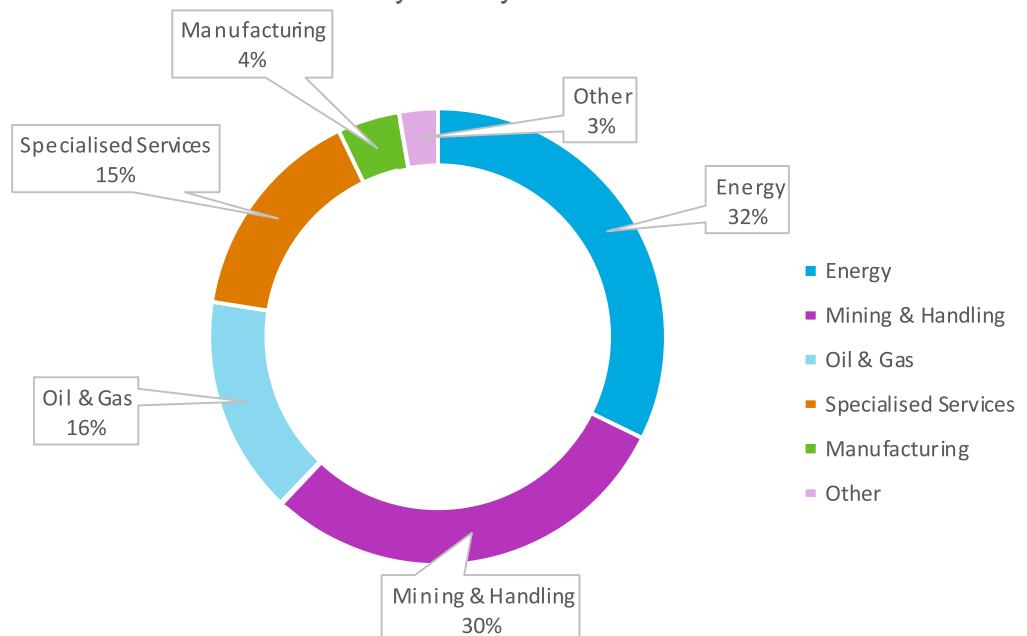
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Revenue by activity



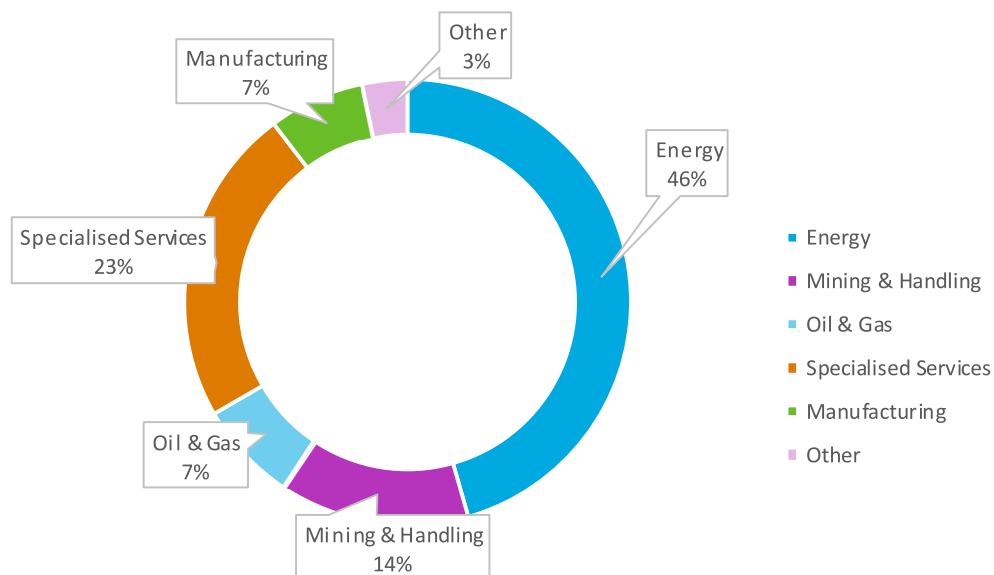
Revenue by activity in 2018



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Revenue by activity in 2017



Profit by geographical region

Geographical market	Profit
Spain	130,256
Europe	7,339
Africa and the Middle East	(23,067)
Asia Pacific (1)	20,598
Latin America	(57,531)
Other	1,297
TOTAL	78,892

* (€ thousand)

(1) See Note 41 to the financial statements.

Income tax expense

	2018
Taxes (€ thousand)	(3,700)



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Value generated and distributed

Value generated	
Revenue	421,325
Other non-financial income	4,789
Finance income	225,076
Share in profit or loss of associates	-
Proceeds of asset disposals	-
TOTAL value generated	651,190
Value distributed	
Relations with suppliers	391,244
Employee remuneration	102,476
Payments to providers of capital	-
Total taxes payable by DF	3,700
Discontinued operations	-
TOTAL value distributed	497,420
Value retained	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. DF is committed to developing a sustainable business model. We manage the 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.



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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. This area of activity is governed by the Risk Control and Management Policy, which was updated by the Board in 2018. The policy sets out the following principles:

- **Promote a risk-management culture** from strategic planning to operational decision making.
- **Separate and assign responsibilities**, and obtain or create the most effective instruments to address 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 method is based on five stages: identification, assessment, management, monitoring and update, with supervisory action.

Further information on risk management at DF is publicly available in the Annual Report and the Annual Corporate Governance Report.

Within this model and under the principles of the policy, the Group updated its risk map in 2018. The risk map identifies, prioritises and monitors risks that could affect DF. 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:** risks of non-compliance with external and internal regulations by the Company's management or employees.

The Risks Department is carrying out a more in-depth analysis of the key risks on the new risk map. The department is designing an inventory of indicators to monitor each of these risks.



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Governance of risk management

Everyone at Duro Felguera is under a duty to support risk management. Our Risk Management Policy sets down the following responsibilities:

- » **Board of Directors:** define, update and approve the Risk Control and Management Policy and set risk appetite.
- » **Audit Committee:** oversees and controls the risk management system and makes risk appetite proposals to the Board.
- » **Management Committee:** identifies and evaluates risks throughout the Company, assigns responsibilities, confirms the results of risk assessments, and approves 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.

5. Doing business responsibly

5.1 Our approach to doing business

Duro Felguera understands corporate social responsibility (CSR) as a commitment to sustainability, ethics and good practices in its relationships with stakeholders.

Duro Felguera's corporate strategy regarding CSR is geared towards achieving a sustainable and socially responsible business model, and setting sustainable and socially responsible business goals and strategies. The Company endeavours to enhance the Group's competitiveness 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, the Code of Conduct, alongside voluntary commitments.

Duro Felguera adhered to the United Nations Global Compact in September 2002. The Company seeks to follow the 10 universal principles of the Global Compact in the areas of human rights, labour, the environment and anti-corruption.

Similarly, the Company has adopted Agenda 2030 for sustainable development and its 17 sustainable development targets. These commitments were considered in the identification phase of materiality analysis.

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CSR Policy

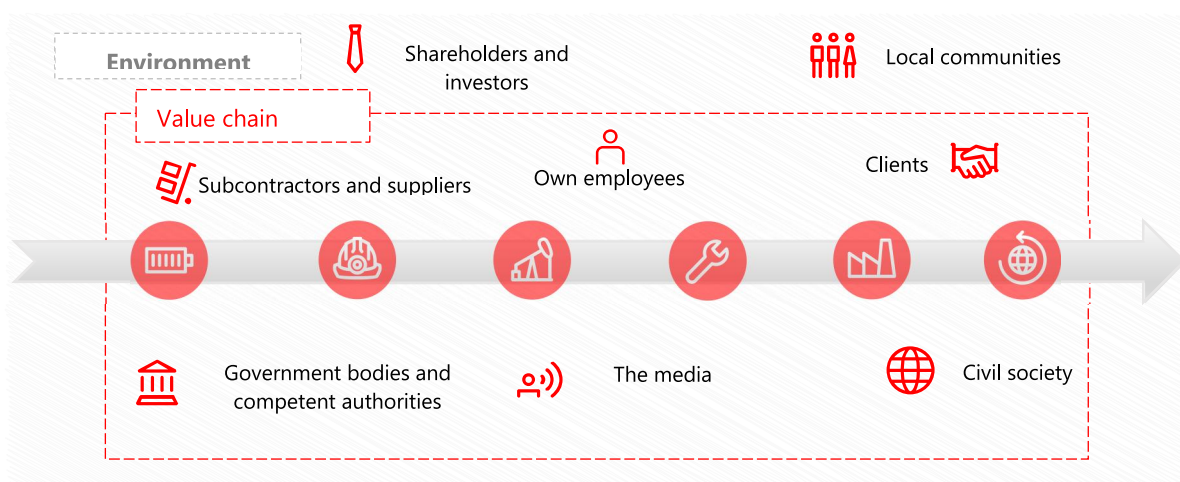
The policy establishes the principles and framework for our corporate responsibility strategy and practices and our commitments to our stakeholders. The principles that govern CSR at Duro Felguera are:

- **Respect for the environment** in project execution.
- **Strict health and safety policies** for personnel, facilities and project execution.
- **Quality policies** aimed at continuous improvement of processes.
- **Continuous training** for employees.
- **Recruitment of young professionals**, ensuring their career development.
- **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**.

DF's Corporate Social Responsibility Policy is publicly available on our website.

Stakeholder engagement

Duro Felguera aims to create a climate of trust with our stakeholders to help ensure our continuity and acceptance in the geographies where we operate. The Company therefore aims to keep up a fluid dialogue with its stakeholders.



Duro Felguera has identified the key issues for each stakeholder group through formal and informal channels, which can be both one-way and two-way. The table below shows, for each stakeholder group, the communication channels and material issues identified in 2018.



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Stakeholder group	Communication channel	Material issue
Employees in-house	◇ Suggestion box	» Health and safety in the value chain
	◇ Intranet	» Quality employment
	◇ Human Resources Department	» Business and financial performance
	◇ Interviews	» Transparency and dialogue with stakeholders
Subcontractors and suppliers	◇ Quality survey	» Talent attraction and retention
	◇ Regular presentations	» Diversity and equal opportunities
	◇ Direct contact via telephone and e-mail	» Strategy and business development
	◇ Tours of the facilities	» Corporate governance
	◇ Tours and inspections carried out by DF	» Responsible supply chain
Clients	◇ Face-to-face meetings and regular conversations	» Health and safety in the value chain
	◇ Fairs and forums	» Business and financial performance
	◇ Workshops and conferences	» Transparency and dialogue with stakeholders
	◇ Client surveys	» Compliance with regulations and policies
	◇ Corporate website	» Respect for human rights
Shareholders and investors	◇ Investor Relations Department: online or telephone contact	» Ethics
	◇ Contact form on the corporate website	» Quality
		» Client satisfaction
		» Transparency and dialogue with stakeholders
Civil society and Local community	◇ Corporate website	» Innovation
	◇ Annual report	» Business and financial performance
	◇ The media	» Strategy and business development
	◇ Social media (Youtube, LinkedIn and Twitter)	» Transparency and dialogue with stakeholders
	◇ Communication with local organisations	» Compliance with regulations and policies
	◇ Business associations	» Risk management
	◇ Public and private bodies	» Ethics
		» Anti-corruption
The media	◇ Corporate website	» Tax transparency
	◇ Annual Report	» Local communities
	◇ The media	» Business and financial performance
	◇ Local organisations	» Strategy and business development
	◇ Business associations	» Transparency and dialogue with stakeholders
	◇ Public and private bodies	» Anti-corruption
Government bodies and competent authorities	◇ Institutional relations	» Compliance with regulations and policies
	◇ Statutory announcements	» Tax transparency
		» Climate change
		» Respect for human rights
		» Waste and the circular economy
		» Efficient water management
		» Efficient use of raw materials
		» Business and financial performance

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Materiality analysis

Materiality analysis is Duro Felguera's tool to identify issues that are crucial for its stakeholders and the Company. DF uses materiality analysis to set its priorities and produce a report, in alignment with our stakeholders.

In 2018, Duro Felguera carried out a materiality analysis under the guidelines of the standard version 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.

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:

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- | | |
|---|---|
| 1. Health and safety in the value chain  | 13. Anti-corruption  |
| 2. Quality employment  | 14. Corporate governance  |
| 3. Responsible supply chain  | 15. Local communities  |
| 4. Quality  | 16. Diversity and equal opportunities  |
| 5. Business and financial performance  | 17. Respect for human rights  |
| 6. Transparency and dialogue with stakeholders  | 18. Client satisfaction  |
| 7. Compliance with regulations and policies and corporate commitments  | 19. Climate change  |
| 8. Environmental impact of projects  | 20. Waste and circular economy  |
| 9. Attracting, retaining and developing talent  | 21. Efficient use of raw materials  |
| 10. Risk management  | 22. Efficient water management  |
| 11. Tax transparency  | 23. Strategy and business development  |
| 12. Ethics  | 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 DF employees by means of 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.



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- **Non-discrimination:** DF Professionals 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.

DF 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.

At the end of 2018, DF had 1,559 employees throughout the Group, with an average length of service of 9.18 years. This figure represents a reduction in absolute terms of 14% with respect to the 2017 workforce due to a business restructuring process that involved the sale of subsidiaries.



Geographical diversity is highly relevant for us due to the international expansion of the Company. The Human Resources Department promotes and supports the International Mobility Service for employees hired in Spain and elsewhere.

The service processes the formalities and conditions of DF employees' international relocations.

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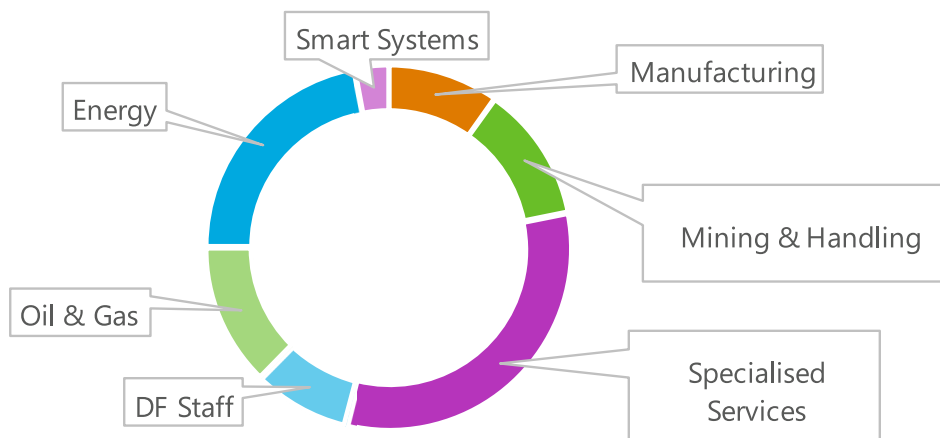
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Workforce distribution by region and gender

Geographical region ³	Women	Men
Africa	8	84
Americas	24	101
Asia	8	49
Spain	210	1060
Oceania	1	2
Rest of Europe	9	3
Total	260	1299

Workforce distribution by business line

The workforce is distributed according to the needs of each business and its activities. In 2018, specialised services and energy had the most employees.



³ Africa: including Algeria
 The Americas, including Argentina, Brazil, Chile, Colombia, Costa Rica, Peru, Mexico and Venezuela
 Asia: UAE (Dubai), India, Indonesia
 Oceania: Australia
 Rest of Europe: Belgium, Belarus and Romania.



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Finally, at the end of 2018 the distribution by category and age of the total workforce of Duro Felguera is as follows:

Category	Group < 30 years		Group 30-50 years		Group > 50 years	
	Women	Men	Women	Men	Women	Men
Management Committee	-	-	0%	100%	0%	100%
University graduates	37%	63%	32%	68%	17%	83%
Diploma holders	0%	100%	21%	79%	13%	87%
Other technicians	14%	86%	12%	89%	4%	96%
Clerical staff	50%	50%	54%	46%	38%	62%
Subalterns	-	-	0%	100%	0%	100%
Shop floor workers	0%	100%	1%	99%	0%	100%

Attracting, retaining and developing talent

Duro Felguera regards its people as key agents in its performance. 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, 60% of our employees are under permanent employment contracts. This year the company made 640 hires, demonstrating a commitment to create a company based on attracting talent.

100% of the Company's employees work full-time.

The distribution of permanent and temporary contracts at year-end is shown below:

<i>No. of contracts</i>	Women	Men
Permanent contract	175	761
Temporary contract	85	538



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<i>No. of contracts</i>	Number of permanent contracts	Number of temporary contracts
Management Committee	6	0
University graduates	330	136
Diploma holders	151	36
Other technicians	138	182
Clerical staff	61	47
Subalterns	5	1
Shop floor workers	245	221
Total	936	623

Region⁴	Number of permanent contracts	Number of temporary contracts
Africa	0	92
Americas	100	25
Asia	22	35
Spain	814	456
Oceania	0	3
Rest of Europe	0	12
Total	936	623

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:

⁴Africa: including Algeria

The Americas, including Argentina, Brazil, Chile, Colombia, Costa Rica, Peru, Mexico and Venezuela

Asia: UAE (Dubai), India, Indonesia

Oceania: Australia

Rest of Europe: Belgium, Belarus and Romania



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Region ²	Group < 30 years		Group 30-50 years		Group > 50 years	
	Women	Men	Women	Men	Women	Men
Africa	11%	28%	2%	6%	3%	3%
Americas	21%	15%	7%	8%	14%	6%
Asia	11%	9%	3%	4%	0%	1%
Spain	47%	46%	84%	81%	81%	90%
Oceania	0%	1%	0%	0%	3%	0%
Rest of Europe	11%	0%	3%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%

Dismissals in 2018, broken down by gender, age and category, and staff turnover are disclosed below. In 2018, average staff turnover in the Company was 12%.

	Women	Men
Number of dismissals	6	32
Voluntary turnover rate (%) ⁵	13	12

	Group < 30 years	Group 30-50 years	Group > 50 years
Total turnover rate (%) ⁶	6	25	70

	Group < 30 years		Group 30-50 years		Group > 50 years	
	Women	Men	Women	Men	Women	Men
Voluntary turnover rate (%) ⁷	20	80	9	91	19	81

⁵ Number of voluntary departures/ Workforce at 31 December

⁶ Number of voluntary departures/ Workforce at 31 December

⁷ Number of voluntary departures/ Workforce at 31 December



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	Group < 30 years	Group 30-50 years	Group > 50 years
Number of dismissals	1	25	12

<i>Job category</i>	Number of dismissals
Executive	3
Department head	2
Senior technician	2
Associate technician	10
Specialist	18
Clerical	1
Assistant	2

These figures reflect the difficult financial position at the end of 2017. 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 150 years. We contained labour costs and framed a Strategic Plan for the period 2018-2021, to streamline, restructure and strengthen our business.

DF is committed for the long haul to the talent of our employees, who are driving the growth and internationalisation of the Company.

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.

The Company has been working for 10 years with the initiative called **FORMA-T**, which involves proactively planning training actions to improve job-related skills, while combining the Company's and employees' interests within the scope of a career at the Company.

DF draws up annual training plans that are agreed with management and look to the needs of the workforce in each of the Group's subsidiaries. In 2018, a total of 4,721 hours of training were provided to 215 employees; the average employee training time is 3.02 hours per person. The breakdown is as follows:



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Job category	Training hours		Number of employees trained	
	Women	Men	Women	Men
University graduates	907	1959	35	70
Diploma holders	248	592	17	53
Other technicians	63	425	7	7
Clerical staff	166	6	9	10
Subalterns	0	0	0	0
Unskilled workers	0	355	0	7
TOTAL	1384	3337	68	147

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.

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

DF regards 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 17%. This is due to the context of the sector, which tends towards a higher male presence. DF 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.

DF 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 DF had 11 people in the company Duro Felguera S.A. On the other hand, DF Calderería Pesada, with a workforce of 155 employees, is in the process of obtaining a certificate of exception.

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. Some employees are subject to a target-based variable pay scheme.



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	Women	Men
Average remuneration ⁸ (€)	33,928	37,068

The pay gap⁹ at the company is 8%. This is in line with two key factors that arise in the context of DF's industry. First, due to the Company's historical gender composition, there is a higher average seniority of men compared to women. Secondly, the sector characteristically translates into a greater presence of men on the shop floor, which widens the pay gap.

	Group < 30 years	Group 30-50 years	Group > 50 years
Average remuneration (€)	21,647	35,482	43,184

	Management Committee	University graduates	Diploma holders	Other technicians	Clerical and subalterns	Unskilled workers
Average remuneration (€)	265,000	49,921	40,605	29,422	27,446	25,762

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 ¹⁰	Ratio of best-paid person's remuneration to total wage bill
Africa	4.98
Americas	3.77
Asia	4.70
Spain	6
Oceania	8
Rest of Europe	2
Total	4.18

Given DF's high international presence and in order to maintain key professional talent within the Company, we offer salaries to new entrants that are above the local minimum wage:

⁸ 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.

⁹ : To calculate the pay gap, the average remuneration of women was subtracted from that of men, and then divided by the average remuneration of men.

¹⁰ Africa: including Algeria

The Americas, including Argentina, Brazil, Chile, Colombia, Costa Rica, Peru, Mexico and Venezuela

Asia: UAE (Dubai), India, Indonesia

Oceania: Australia

Rest of Europe: Belgium, Belarus and Romania



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Region ¹¹	Ratio of new entrant's salary at DF vs. local minimum
Africa	1.93
Americas	2.8
Asia	1.61
Oceania	1.13
Rest of Europe	1.40
Spain	1.21

Non-discrimination

DF has a protocol for action against sexual and/or moral harassment, which was updated in May 2017, which includes the principles of non-discrimination on grounds of gender contained 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 safety¹²

Duro Felguera integrates Occupational Risk Prevention throughout the Group in all of its activities, decisions, and technical and work organisation processes, involving all management levels.

The DF Group makes human, social, economic and organisational efforts to address occupational risk prevention across the different businesses as a standard activity. In practice, this commitment translates into measures to ensure compliance with the obligations and commitments acquired in the area of workers' health and safety.

¹¹ Africa: including Algeria

The Americas, including Argentina, Brazil, Chile, Colombia, Costa Rica, Peru, Mexico and Venezuela

Asia: UAE (Dubai), India, Indonesia

Oceania: Australia

Rest of Europe: Belgium, Belarus and Romania

¹² All reported information is consistent with Directive 89/391/EEC on the introduction of measures to encourage improvements in the safety and health of workers at work. ESAW: EUROPEAN STATISTICS ON ACCIDENTS AT WORK



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The Occupational Risk Prevention Policy at Duro Felguera is the framework for ensuring that occupational risk prevention is carried out effectively at all levels of the organisation. The policy is implemented through manuals and procedures that establish roles at all management levels to ensure the application of preventive action and continuous improvement in terms of ORP, professional performance and employee welfare.

Proper implementation and continuous monitoring of our manuals and procedures has enabled all business units to certify their Occupational Risk Prevention Management System in accordance with the OHSAS 18001:2007 standard since July 2005. The management system enables continuous indicator-based monitoring of how well we are achieving objectives. These systems are subject to annual audits.

The preventive organisation model is based on a Joint Prevention Service, a specialised unit within the Human Resources Department. Each Group company manages ORP independently, covering all processes and employees, with a special emphasis on the responsibility of senior officers. In addition, an external occupational health provider monitors employee health using protocols specific to the inherent risks of each role.

At DF companies where workers' representation is present through a Workers' Committee, Prevention Officers have been appointed. Alongside the representatives of Management they make up the Health and Safety Committees (HSC). The Committee meets on a regular schedule and informs workers' representatives of specific ORP issues, seeking their input and involvement. All HSC meetings are recorded in minutes that are available to the parties and to auditors and government bodies.

In 2018, we had no work-related accidents with fatalities in any location or country.

2018	Own employees	
	Men	Women
Accidents involving absence from work ^{1,2}	30	0
Frequency ¹³	9.36	0
Severity rate ¹⁴	0.42	0
Occupational diseases ¹⁵	3	0

¹ 30 accidents involved subsequent absence (27 Spanish nationals and 3 nationals of other countries where we operate). All accident victims were male.

² Spanish nationals: 25 accidents in Spain, 2 accidents in Belgium
Local employees: 1 Costa Rica (FIHI), 1 Argelia (DFE) and 1 Argentina (DFOM)

¹³ Frequency: Number of accidents with sick leave occurring during the working day per million hours worked

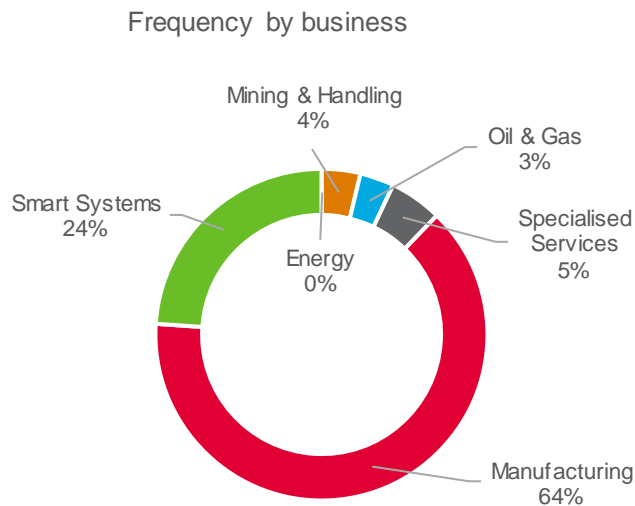
¹⁴ Severity rate: Number of days lost per thousand hours worked

¹⁵ The occupational diseases occurred in Spain. (All occupational diseases arose in male employees.)



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DF has identified that accident frequency in subcontracted personnel is 3.20¹⁶.

Industrial health actions have been carried out on a representative population of more than 90 workers. In addition to these direct measurements of real working conditions, 1086 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 225 analyses, is transferred to 51 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 1,382 health screenings were conducted in 2018 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. Employees can see the results of their health examinations and medical histories over the web.

The number of absence hours in 2018 was 112,232 hours, corresponding to 14,029 working days, at a rate of 8 hours/day.

¹⁶ Note: 26 accidents / 8,124,405 hours worked * 1,000,000



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5.4 The 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.

Aware of its environmental footprint, the Company designs, builds and operates in strict accordance with its environmental licenses and permits, which stipulate the relevant environmental requirements to be met. 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.
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.

In 2018, Duro Felguera embarked on the construction phase of its "Aconcagua" project to build a cogeneration plant in the Valparaiso region of Chile for state-owned company ENAP. Both the company that DF works for and the Chilean government impose strict environmental standards on their suppliers.

Environmental Policy

DF has pledged to make environmental concerns an integral part of its commitments under the CSR Policy:

- *"integrating environmental concerns into its strategic management, especially sustainability and respect for the environment",*
- *"promoting and fostering environmental protection and preservation, with the involvement of its directors, managers and employees, as well as the Group as a whole [...] through continuous improvement, making sustainability part of the decision-making process and assessing the impact of its business activities in the areas where it operates".*

Therefore, to make environmental concerns part of its strategic business management, in 2018 it approved the latest version of 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, 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.

The following commitments and guidelines are described in the Policy and have been adopted by DF for the purpose of managing its environmental performance:



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- **Integrating environmental concerns and respect for the natural environment** into the Group's strategy.
- Ensuring that **financial performance and environmental protection are mutually compatible** at all times through innovation, eco-efficiency and the sustainable use of resources.
- Detecting **opportunities for continuous improvement** in DF's Environmental Management System.
- **Complying strictly with applicable environmental law and with any other obligations.**
- **Prevention pollution** through checks by Management, setting objectives and analysing environmental risks.
- **Fostering research and the development of new technologies** and processes, to **help combat climate change** and other pressing **environmental challenges**, through a preventive approach and by **minimising environmental impacts** wherever possible.
- **Providing information and training for employees** on the impact of performing processes and developing Group products.
- **Ensuring regular communication** with stakeholders and society at large regarding the activities the Company carries out and any impact they may have on the environment.

Environmental management

Duro Felguera has embraced the ISO 14001:2015 - Environmental management systems (EMS) standard as a means of preventing pollution and enabling environmental compliance and the continuous improvement of its environmental performance.

This ongoing review ensures that the Company not only complies with applicable environmental requirements, but also identifies opportunities to enhance its environmental performance, linking this to its approach as a sustainable company.

This new EMS, which is certified under ISO 14001, integrates the partial certifications existing for the large projects, fabrication and specialised services lines.

Meanwhile, having a certified Environmental Management System in place allows the Company to control and comply with applicable environmental law across all its activities. With this in mind, DF has included specific coverage for sudden or accidental pollution in its civil liability insurance policy. As a result of the Company's business activities, the obligation to take out environmental liability insurance policies extends to its clients.

Efficient management of natural resources

To ensure the sustainable management of resources, DF enforces strict compliance with the relevant legal limits on its main environmental impacts. It also monitors the effectiveness of the mitigation measures designed to prevent any alteration in the quality of the natural resources.

Some of the most common practices carried out during DF projects are: integrated water management, control of air emissions (noise and particles) and efficient waste management.

The Company continued to monitor air quality in 2018 (particle emissions, noise levels and waste water), while complying rigorously with the monitoring programmes established for each project.



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DF also manages and controls the environmental impact of its offices, notably the consumption of resources such as electricity, water, gas and paper. The measures put in place are intended to cut consumption at offices, as described in the Manual of Good Environmental Practices.

Water consumption

As the Company operates on its clients' premises, it is typically the client that monitors consumption, with no direct control possible by DF.

However, DF controls consumption at offices and tooling facilities and at heavy fabrication plants, having consumed 6,989 m³ and 5,111 m³, respectively. Estimated figures are provided for certain months and the figures on consumption and emissions for the Madrid office are through to August only, when the building was sold.

All centres and offices are connected up to the municipal grid and the impact on the environment and biodiversity is not considered material.

12,100 m³ of water consumed at offices, storage facilities and workshops, with estimated figures for certain months

Waste and the circular economy

DF'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 environmental law and DF's own policies and procedures and by picking the right final disposal method for each type of waste generated.

Significantly, all DF projects are carried out with adequate separation and management of waste, with special attention paid to polluting hazardous waste.

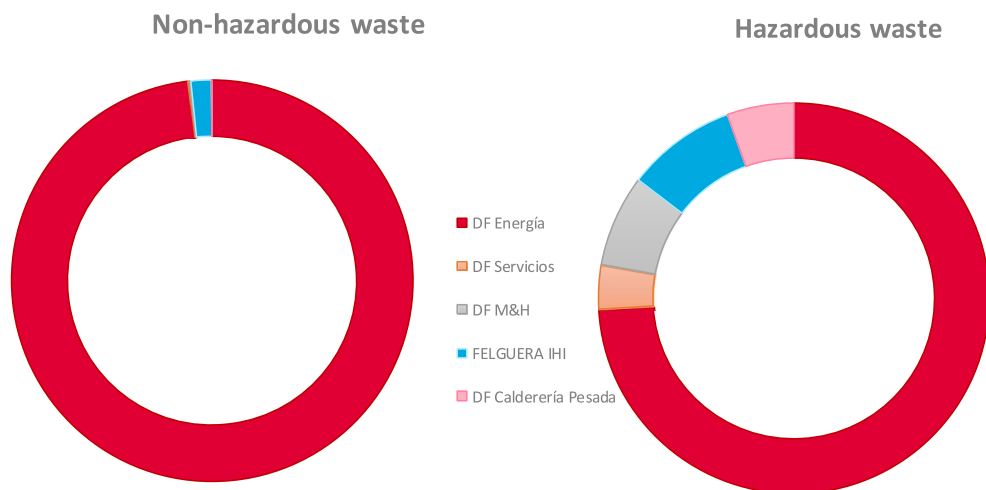
The following table shows the waste generated in 2018 by DF's activities, broken down by business.

<i>Kilograms</i>	DF Energía	DF Servicios	DF M&H	Felguera IHI	DF Calderería Pesada	Total
Non-hazardous waste	12,354,661	22,420	8,816	208,301	192,580	12,786,778
Hazardous waste	86,170	4,261	8,851	10,556	6,420	116,258

The non-hazardous waste generated by the DF Calderería Pesada unit is ultimately disposed of. Moreover, 66% of the hazardous waste generated by DF Calderería Pesada is recovered by the end waste manager.

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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. Duro Felguera is now working to compile this information for future reports.

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 2018, the Company also reported its emissions derived from fuel and electricity consumption at its offices and by the Heavy Fabrication unit. 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 DF's activities: 2,804 tonnes of CO₂ eq.

Direct emissions

Direct emissions from fuel consumption amounted to 6,548 tonnes of CO₂ equivalent:

	Fuel consumption - 2018			CO2 equivalent (kg)	
	Offices	DF Calderería Pesada	Unit	Offices	DF Calderería Pesada
Natural gas ¹⁷	1,300,856	3,683,861	kWh	264,073.77	747,824
Gas oil	2,146	66,871	litres	5,407.92	181,921
Propane	-	5,883	litres	-	8,815
Gasoline	-	412.74	litres	-	900

¹⁷ Emissions and certain natural gas consumption figures are estimated.



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Indirect emissions

Indirect emissions from electricity consumption amounted to 1,595 tonnes of CO₂ equivalent:

	Energy consumption - 2018 (kWh) ¹⁸		kg of CO ₂ eq.	
	Offices	DF Calderería Pesada	Offices	DF Calderería Pesada
Electricity	2,322,887	1,964,655	1,045,299	550,103

Environmental awareness

DF knows the importance of environmental risk awareness in connection with its business activities and in 2018 it continued to train its workers and subcontractors to make them fully aware of the Group's environmental strategy. Key initiatives included:

- » Induction talks by the site environmental officer for every person who works on site.
- » On-site talks by the environmental officer on specific environmental concerns.
- » Distribution of tri-fold leaflets on the most important 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 its activities, clearly explaining the steps for spotting and responding to possible environmental accidents and emergencies while also attempting to prevent or reduce any ensuing environmental impact.

The effectiveness of the emergency plans is regularly checked by carrying out environmental emergency drills.

Where a drill is not possible, DF 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.

¹⁸ Electricity consumption has been estimated for certain months.



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5.5 Quality

Duro Felguera views excellence as the basis for creating value for stakeholders. More to the point, DF views its clients as a cornerstone for the development of its business. It has therefore approved a Corporate Quality Policy, which enshrines the strategic values to be followed:

- **Client centric**, identifying, understanding and transmitting their needs, requirements and expectations.
- **Focus on project management**, applying a process-based system, assessing its effectiveness and steering the management towards specific objectives.
- **Continuous improvement** as a permanent objective, to make the Company more competitive and flexible in responding to market demands and opportunities.
- **Close collaboration with suppliers and partners** as ultimately they know their own business and sector better than anyone else.

This general policy is then deployed at each DF business unit in the form of a specific policy tailored to its own expectations and needs.

Quality Management System

Duro Felguera has implemented a Quality Management System (QMS) that adheres to ISO 9001:2015 across all its lines of business. Clients and continuous improvement are treated as the main levers in achieving professional excellence. The Company also protects the health and safety of clients and listens to both corporate and client requirements, while also complying with applicable laws in the countries where the Group operates.

The management system is there to ensure that processes operate efficiently and are controlled, and that the necessary resources are available. These processes come in three forms at the Company: operational, support and strategic, and improvement.

The processes have procedures and work instructions that identify responsibilities and provide indicators and monitoring methods. DF works to measure and analyse its processes with a view to designing action plans that ensure their effectiveness in achieving the objectives.

A quality management governance model has also been designed, comprising:

- **Senior Management:** sets guidelines and objectives for both quality management and continuous improvement. It also monitors market performance and trends so that action can be taken accordingly.
- **Commercial Division:** identifies key clients and supports Senior Management in its functions.
- **Quality Department:** responsible for maintaining the Quality Management System. It also monitors and controls all improvements to have been implemented.
- **Operations Department:** provides technical assistance to the Quality Department when managing client claims and grievances.

Lastly, DF carries out regular external and internal audits to assess the implementation and effectiveness of its QMS.



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Client satisfaction

Duro Felguera strongly believes that its financial earnings are a product of client satisfaction. It listens closely to its clients and analyses their views and opinions through the following communication channels in a bid to identify and integrate their needs and expectations into its products and services:

- **Client grievance channel:** claims and grievances are compiled by the Commercial area and/or Quality Management area. The handling and closure of all incidents is recorded in a database for subsequent analysis.
- **Client training courses:** assessment questionnaires are handed out at the end of each course.
- **Satisfaction surveys:** used to gather feedback and gauge the needs of the client. The surveys are scrutinised in order to improve the client's satisfaction.
- **Work completion certificates,** showing the client's opinion and degree of satisfaction.

The Quality division received no formal complaints from clients in 2018.

5.6 Human rights

Duro Felguera is firmly **committed to defending and protecting human rights and civil liberties**; a commitment expressed not only implicitly by the fact that it has been a partner of the United Nations Global Compact since 2003, but also explicitly through 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 documents are mandatory for its direct employees and also for suppliers and subcontractors.

The Company's new **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 a **Whistleblowing Channel** in 2018. No complaints or incidents of non-compliance were reported in 2018 through the channels set up for that purpose. There were no complaints or incidents in 2018 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.



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- 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.
- 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 industries and ensures that respect for human resources permeates its entire value chain; an assurance also set forth in its CSR Policy.

To **prevent the risk** of human rights abuses, DF insists that all suppliers and subcontractors sign a clause in their contract requiring them to accept the commitments set out in DF's Corporate Social Responsibility Policy and Code of Conduct.

If any violation or abuse is detected, DF will enforce the contractual clause entitling it to take action in response, ranging from financial penalties through to termination of contract. In 2018, there were no reports of human rights abuses by suppliers, and nor was there any perceived risk of any of DF's suppliers or subcontractors engaging in forced or compulsory labour.

Meanwhile, the Company is working to develop training material in defence of human rights, with a view to training its main operating units or any suppliers that may be vulnerable to human rights abuses.

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.

The Company's Strategic Plan, currently under review, sets the objective of approving a new procurement procedure, making corporate and project-specific functions an integral part of the department's key decisions, while also implementing a procurement process management tool.

Duro Felguera classifies its suppliers in two types, depending on the purpose for which their services are arranged:

- » **Corporate:** DF may arrange suppliers to cover its corporate requirements, such as security, cleaning, maintenance, stationery and office supplies, IT equipment, advisory services, etc.



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- » **Project-specific:** to respond to project-related needs, DF 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 and requirements in all procurement processes, while also factoring in Corporate Social Responsibility concerns.

In its CSR Policy and Supplier Code of Conduct, Duro Felguera 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.
- **Championing objectivity, truthfulness and transparency** as the 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 DF, a local supplier means any supplier with whom a contract is signed and whose head office is located in the same country in which DF is involved in some project.

Notably, most purchases were made from local suppliers in 2018 across most of the countries in which the Group has significant operations¹⁹. The fact that local suppliers account for only 42% of total procurement is somewhat misleading and is down to one particular project in Romania, in which only 3% of procurement was arranged from local suppliers due to heavy procurement of primary equipment from OEMs²⁰ not located in the country.

¹⁹ Significant operation: operations in which procurement exceeds €100,000.

²⁰ OEM: original equipment manufacturer.



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<i>Countries with operations where significant purchases were made</i>	<i>Percentage of local procurement (%)</i>
Algeria	100
Belgium	76
Canada	100
Chile	100
Dubai	100
Spain	63
Mexico	52
Mauritania	88
Peru	100
Romania	3
TOTAL	42

Risk management in the supply chain

As explained in the previous chapter of this report on **respect for human rights**, DF insists that all suppliers and subcontractors sign a clause in their contract requiring them to 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 2019. 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.

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.



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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. DF has yet to identify any supplier that might pose a significant risk to the principles and commitments it upholds.

In 2018, a total of 686 suppliers were assessed with social and environmental criteria in mind, equivalent to 100% of new suppliers.

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.

DF’s innovation division provides support to all Group companies, promoting and backing all corporate initiatives that involve some form of innovation.

The Company presented its Strategic Plan in June 2018, allowing it to press on with the R&D+i projects that were already under way at the start of the year, despite the budgetary constraints. The R&D+i area conducts an annual control of all innovation projects, while also tracking and monitoring progress.

Various projects were completed during 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 40% 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 DF’s Logistics Systems unit.

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:



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- **Strict compliance with prevailing legislation, the Company's own internal rules and regulations and the good corporate governance practices assumed 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, 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 DF'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 remains in close contact with local stakeholders when performing its projects. It also collaborates closely on various measures and initiatives, such as developing the necessary local infrastructure, while supporting social development projects and carrying out environmental restoration actions. It is worth noting that because of Duro Felguera's business model it is typically the end client who establishes relations with the community and is largely responsible for organising and handling the different social development and environmental protection actions associated with this type of project. 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**: DF sets up health and safety committees for its workers to ensure fluid communication between workers and project management.
- **Minimising environmental impacts and transparency**: DF conducts environmental impact studies in compliance with legal requirements and to minimise any environment impact that is within its control. Depending on the results, these impacts may be monitored and published internally for the attention of project employees. The results may also be released if required by the authorities.
- **Contribution to society**: 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 2018, most notably the following:



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EMPALME II Project, Mexico

In the social realm, the Company has provided valuable assistance on numerous occasions to an orphanage in the town of Empalme, offering food, toys and other donations.

The Company has also helped to construct a new rehabilitation centre for drug addicts, since the previous one was in very poor condition. The new facility is located close to the existing centre.

In the field of education, Duro Felguera arranges visits to its facilities for engineering students enrolled at Guaymas Technology Institute, affording them valuable insight into their chosen career.

Last but not least, the Company partnered up with the educational community to monitor and ensure the long-term viability of an important reforestation project undertaken jointly with one of its clients.

PETACALCO Project, Mexico

This project involves the construction of a bridge over the Balsas River, which separates the Mexican states of Michoacán and Guerrero. Several meetings have now been held with local fishermen's associations to report on the ongoing activities and to assess any impact the bridge may have on fishing activity.

DF has also collaborated with the Institute for Adult Education (INEA) by donating a sum of money to acquire IT material.

DJELFA Algeria

On 28 February 2017, Duro Felguera entered into a partnership agreement with the Algerian Vocational Training Centre (CFPA) with the aim of training students and teachers of vocational training centres, while also offering internships and work experience alongside DF construction site personnel.

For instance, five students and three teachers received valuable on-the-job training and experience under this programme in January 2018 by working at the Djelfa site.

ACONCAGUA 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.

Meanwhile, the Chilean project has continued to honour its commitment with the municipality of Concón to hire local labour.



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Initiatives and partnerships

In 2018, Duro Felguera continued to 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.

- » Princess of Asturias Foundation
- » FADE - Asturian Federation of Business Owners
- » FICYT - Foundation for the Promotion in Asturias of Applied Scientific Research and Technology
- » ITMA FOUNDATION
- » EXPORTERS AND INVESTORS CLUB
- » ENERCLUB - SPANISH ENERGY CLUB
- » ASSOCIATION OF SPANISH ISSUERS
- » AENOR - Spanish Association for Standardisation and Certification
- » POLO DEL ACERO
- » COGEN - Spanish Association for the Promotion of Cogeneration
- » ASSET - Spanish Association of Finance Officers
- » IMSA ASPINDO (Indonesian Association of Mining Companies)
- » GLOBAL COMPACT OF THE UNITED NATIONS
- » HISPANIC-BRAZILIAN CULTURAL FOUNDATION
- » SPANISH CHAMBER OF COMMERCE IN MEXICO



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6. About this Report

This CSR 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 2018 financial year, running from 1 January 2018 through to 31 December 2018.

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.

This non-financial statement has been prepared in accordance with Spanish Law 11/2018 of 28 December 2018, on non-financial reporting and diversity, amending the Commercial Code, the revised text of the Capital Enterprises Law, as enacted by Royal Legislative Decree 1/2010 of 2 July, and Law 22/2015 of 20 July on financial auditing (from Royal Decree-Law 18/2017 of 24 November).

Meanwhile, Duro Felguera continues to follow the sustainability reporting guidelines of the Global Reporting Initiative (GRI), as can clearly be seen from its latest CSR Report published in June 2017. The 2018 CSR Report has been drawn up in accordance with the core option, pursuant to GRI requirements.

External assurance

The qualitative and quantitative information provided by the indicators respond to the new GRI standards in their standard version, and comply also with the requirements of Spanish Law 11/2018 of 28 December 2018, on non-financial reporting and diversity.

The information has been reviewed by EY, with limited assurance of the information.

*Please contact Carlos Arias Zapico for any query, request or clarification you may require after reading this report.
Carlos.arias@durofelguera.com*



DURO FELGUERA, S.A. AND SUBSIDIARIES
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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 102-2, 102-4, 102-6	133-135	
		GRI 102-3	Duro Felguera S.A. Parque Científico Tecnológico, C/ Ada Byron, 90, 33203 Gijón, Asturias (Spain)	
		GRI 102-7	148 and 159	
		GRI 102-14	130	
		GRI 102-15	152-153	
General disclosures	Reporting framework	GRI 102-54, 102-46, 102-47	157-158	
		GRI 103-1	152-154	
Management approach	Description of applicable policies	GRI 103-3	152-154	
		Results of those policies		
		Main risks related to these issues and connected to the Group's activities	152-154	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)



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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, 308-2	170 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 in litigation or administrative proceedings involving environmental matters.	
	Environmental assessment or certification procedures	GRI 103-2, 308-1	171	
	Resources dedicated to the prevention of environmental risks	Internal framework	Financial Statements - Note 40 C	
	Application of the precautionary principle	GRI 102-11	152-154 170-171	
	Amount of provisions and safeguards for environmental risks	Internal framework	Financial Statements - Note 26	
Pollution	Measures to prevent, reduce or repair carbon emissions (also includes noise and light pollution)	GRI 103-2 305-1, 305-2, 305-7	171 173-174	DF engages in activities that are considered air polluting under APCA-286. The Company complies with all legal requirements and comes in below the relevant maximum thresholds. DF has no record of any occasional monitoring activity carried out
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, 306-1, 306-2	172-173	
	Actions to combat food waste	-	-	DF does not engage in any food-related activity



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Environmental matters		Reference framework	Page	Reason for omission
Sustainable use of resources	Responsible water consumption and supply based on local restrictions	GRI 303-1, 303-2	172	
	Consumption of raw materials	GRI 301-1, 301-2	-	Raw materials are specified by our clients and DF undertakes to honour those requirements
	Measures in place to ensure more efficient use of resources	GRI 103-2 302-4, 302-5	-	Raw materials are specified by our clients and DF undertakes to honour those requirements
	Direct and indirect energy consumption	GRI 302-1, 302-2	173-174	
	Measures in place to improve energy efficiency	GRI 203-1, 302-1, 302-4, 302-5	173-174	
Climate change	Use of renewable energies	-	-	The only available information we have on energy sources relates to the commercial network
	Material aspects relating to the greenhouse gas emissions generated as a result of the Company's activities	GRI 201-2, 305-1, 305-2, 305-3	173-174	Scope 3 emissions are not reported
	Measures in place to adapt to the consequences of climate change	GRI 103-2, 201-2	173-174	
Protection of biodiversity	Voluntary medium- and long-term targets in place to reduce greenhouse gas emissions and the resources implemented to that end	GRI 305-5, 301-1	173-174	
	Measures in place to preserve or restore biodiversity	GRI 304-3	-	DF does not engage in any activities that might affect biodiversity
	Impacts caused by activities or operations in protected areas	GRI 304-2, 303-2	-	DF does not engage in any activities that might affect biodiversity



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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	159-161 Annual Corporate Governance Report <i>Section C. Structure of the Company's management</i>	
	Total number and distribution of employees by job category	GRI 401-1	161-163	
	Total number and distribution of types of employment contract	GRI 401-1	161-163	
	Annual average by contract type (permanent, temporary and part-time), by gender, age and job category	GRI 401-1	161-163	The annual average by gender, age and job category is not reported. Reporting systems for this type of information are currently unavailable.
	Number of dismissals by gender, age and job category	GRI 405-1	140 and 159 Annual Corporate Governance Report <i>Section C. Structure of the Company's management</i>	
	Average remuneration by gender, age and job category	GRI 401-1	163-164	
	Salary gap	GRI 405-2	165-166	
		GRI 405-2	166	
	Average remuneration of directors, by gender	GRI 102-35	142-143 The individual remuneration of directors is explained in the 2018 Annual Directors' Remuneration Report and in the report of the Appointments and Remuneration Committee on the Directors' Remuneration Policy for 2018, 2019 and 2020. Remuneration Policy for Senior Executives of Duro Felguera, S.A.	



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Corporate matters and employees		Reference framework	Page	Reason for omission	
Organisation of work	Average remuneration of executives, by gender	GRI 102-35	165 The individual remuneration of directors is explained in the 2018 Annual Directors' Remuneration Report and in the report of the Appointments and Remuneration Committee on the Directors' Remuneration Policy for 2018, 2019 and 2020. Remuneration Policy for Senior Executives of Duro Felguera, S.A.		
	Implementation of work disconnection policies	GRI 103-2	165		
	Employees with disabilities	GRI 405-1	165		
	Organisation of working time	GRI 103-2	165		
	Number of hours of absenteeism	GRI 403-2	169		
	Measures aimed at improving the work-life balance and to ensure a suitable balance between both parents	GRI 103-2	165		
	Health and safety conditions in the workplace	Health and safety conditions in the workplace	GRI 403-1, 403-2, 403-3, 403-4 Internal framework: Directive 89/391/EEC	167-169	
		Number of occupational accidents by gender	GRI 403-2, 403-3 Internal framework: Directive 89/391/EEC	168	
			GRI 403-2 Internal framework: Directive 89/391/EEC	168-169	
			GRI 403-2 Internal framework: Directive 89/391/EEC	168	
Health and safety	Accident frequency rate by gender				
	Accident severity rate by gender				



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Corporate matters and employees		Reference framework	Page	Reason for omission
	Occupational diseases by gender	GRI 403-2 Internal framework: Directive 89/391/EEC	168	
	Organisation of dialogue between the company and employees, including procedures for informing, consulting and negotiating with employees	GRI 402-1, 403-1, 403-4, 103-2	155-156, 165 and 168	
Employment relations	Percentage of employees covered by collective bargaining agreements, by country	GRI 102-41	165	
	Description of collective bargaining agreements, particularly in the field of occupational health and safety	GRI 102-41, 403-4	165 and 168	
Training	Policies put in place in relation to training	GRI 103-3, 404-2	164	
	Total number of training hours by job category	GRI 404-1	165	
Accessibility	Universal accessibility for persons with disabilities	GRI 405-1	165	
	Measures put in place to foster equal treatment and opportunities for women and men	GRI 401-3, 405-1, 405-2	140, 158-159 and 165-166 Annual Corporate Governance Report <i>Section C. Structure of the Company's management</i>	
Equality	Equality plans, measures taken to promote employment, protocols to combat sexual and gender-based harassment	GRI 103-2, 405-1	140 and 165-167 Annual Corporate Governance Report <i>Section C. Structure of the Company's management</i>	
	Integration and universal accessibility for persons with disabilities	GRI 405-1	165	
	Anti-discrimination policy and, where applicable, diversity management policy	GRI 103-2, 406-1	140, 158-159 and 167	



Human rights		Reference framework	Page	Reason for omission
Application of human rights due diligence processes	GRI 103-2, 412-2	130, 145-146, 154, 176-177		
Measures to prevent the risk of human rights abuses and, where appropriate, measures to mitigate, manage and redress any abuses committed	GRI 412-2	145-146 and 176-177		
Reports of human rights abuses	GRI 406-1	177		
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	GRI 407-1, 408-1, 409-1, 410-1	130, 145-146, 154, 158, 176-177 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 Duro Felguera outsources its security needs and all subcontracted personnel are required to comply with the commitments assumed by the Company in relation to human rights		
Eradication of discrimination in employment or occupation	GRI 405-1	140, 159, 176-177		
Eradication of forced or compulsory labour	GRI 409-1	176-177 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	GRI 408-1	176-177 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 205-1, 205-2, 419-1	145-147 Note 36 to the 2018 Financial Statements		
Measures to combat money laundering	GRI 205-2, 419-1	145-147		
Contributions to foundations and non-profit entities	GRI 201-1, 413-1	152 and 181-183		



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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, 201-1	155-156, 152	
	Impact of the Company's activities on local populations and territories	GRI 411-1, 413-2	152, 162, 178, 180-182	
	Relations maintained with local community agents and forms of dialogue with those agents	GRI 102-43	155-156 and 181	
	Association or sponsorship actions	GRI 203-1, 102-12, 102-16, 102-13	146-147 and 181-183	
Subcontracting and suppliers	Making social, gender equality and environmental concerns part of the procurement policy	GRI 102-9, 308-1, 414-1	177-180	
	Consideration of social and environmental responsibility concerns in relations with suppliers and subcontractors	GRI 102-9, 414-2	177-180	
	Supervision and audit systems and the results of those systems	GRI 308-2, 407-1, 408-1, 409-1	179-180	
	Measures to protect the health and safety of consumers	GRI 416-1	175	
Consumers	Grievance and claims systems	GRI 416-2, 418-1	156 and 176 176	
	Grievances received and the solution or response given	GRI 103-2, 416-2, 417-2, 417-3, 418-1, 419-1	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 2018 Financial Statements	



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Information on the company			
	Reference framework	Page	Reason for omission
Tax information	Profit obtained, country by country	149	
	Income tax paid	147-148	
	Public assistance and aid received	148	

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**Independent review report of the consolidated Non-Financial Information
Statement corresponding to the financial year ended on December 31,
2018**



INDEPENDENT REVIEW REPORT OF THE NON-FINANCIAL INFORMATION STATEMENT 2018 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 Non-Financial Statement (hereinafter NFS) for the year ended December 31, 2018, of DURO FELGUERA, S.A. and subsidiaries (hereinafter, the Group), which is part of the Consolidated Director's Report of the Group.

The content of the NFS 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 the table "Table of contents required by the law 11/2018" contained in the attached consolidated NFS.

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 the table "Table of contents required by the law 11/2018" of the State.

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 NFS 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 NFS 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 behavior.

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 2018. Information on prior years was not subject to the verification required by prevailing mercantile regulations. 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 NFS, reviewing the process for gathering and validating the information included in the NFS, 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 NFS for the year 2018 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 2018 Non-Financial Statement.
- ▶ Reviewing the information on the risks, policies and management approaches applied in relation to the material aspects included in the 2018 NFS.
- ▶ Checking, through tests, based on a selection of a sample, the information related to the content of the 2018 NFS 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 NFS of the group for the year ended December 31, 2018 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 the table "Table of contents required by the law 11/2018" of that State.

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.

(Signature on the original in Spanish)

Alberto Castilla Vida

March 29, 2019



ISSUER'S IDENTIFICATION

Year-end date: 31/12/2018

Tax identification code [CIF]: A-28004026

Company Name:

DURO FELGUERA, S.A.

Registered office:

ADA BYRON, 90 - 33203 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

Until the first General Meeting of shareholders was held on 15 June 2018, the company's share capital was €80 million. At that meeting, it was resolved (i) to reduce share capital through the redemption of treasury shares and through a reduction in the par value of shares in order to re-establish the structure of the Company's equity. Share capital thus became €1,440,000. It was also resolved (ii) to subsequently increase share capital by a maximum amount of €46,560,000.

The financial position of the company for several financial years (2015, 2016) showed a loss of €227,521,925.19 by 2017. This led to a negotiation with creditors that culminated in a refinancing agreement, which significantly reduced the company's debt.

Some of the main terms of the refinancing agreement were (i) a restructuring of liabilities through conversion of €233,009,000 into convertible bonds with a final impact on equity; (ii) conversion of €85 million into sustainable debt maturing in 5 years; (iii) a new guarantee line for €100 million, 50% covered by insurers or other institutions, and maintenance or replacement of guarantees for existing projects. All of this was subject to: (i) approval and implementation of a capital increase in cash for an amount of at least €125 million (capital + share premium); (ii) a final court ruling on the refinancing agreement; and (iii) issuance of convertible bonds by offset of a portion of the current debt.

As a result, on 27 July 2018, the date of full effectiveness of the capital increase decided on by the shareholders at a General Meeting, share capital was set at €48,000,000.

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	
INDUMENTA PUERI, S.L.	0.00	9.53	0.00	0.00	9.53
JUAN JOSÉ RODRÍGUEZ-NAVARRO OLIVER	0.00	4.17	0.00	0.00	4.17
ABACO CAPITAL SC NC, SA.	0.00	5.17	0.00	0.00	5.17
SABINO GARCÍA VALLINA	0.00	3.12	0.00	0.00	3.12

Name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
ALVARO GUZMAN DE LAZARO MATEOS	0.00	3.08	0.00	0.00	3.08

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
JUAN JOSÉ RODRÍGUEZ-NAVARRO OLIVER	GLOBAL INCOME SA SPE	4.17	0.00	4.47
SABINO GARCÍA VALLINA	TSK ELECTRONICA Y ELECTRICIDAD, SA.	3.12	0.00	3.12
ÁLVARO CUZMÁN DE LÁZARO MATEOS	AZVALOR ASSET MANAGEMENT SC ICC, SA.	0.00	0.00	0.00
ABACO CAPITAL SGI IC, SA.	LA MUZA INVERSIONES SICAV, SA.	5.17	0.00	5.17
INDUMENTA PUERI, S.L.	GLOBAL PORTFOLIO INVESTMENTS, S.L.	9.53	0.00	9.53

State the most significant shareholder structure changes during the year:

Most significant movements

As indicated in section A.1, in 2018 the Company carried out a simultaneous capital reduction and increase (burn-out turnaround), which has led to a significant change in its shareholding structure.

Below is an outline of the shareholder structure that existed before the burn-out turnaround approved by the shareholders at the General Meeting of 15 June 2018:

The significant shareholders were Inversiones Somió, S.L. with 24.39% of share capital, Inversiones Río Magdalena, S.L. with 10.03% of share capital and Onchena, S.L. with 5.05% of share capital. These shareholders had their interest diluted because they did not take part in the capital increase of July 2018, and therefore ceased to qualify 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
ALEJANDRO LEGARDA ZARAGÜETA	0.04	0.00	0.00	0.00	0.04	0.00	0.00
JUAN MIGUEL SUCUNZA NICASIO	0.04	0.00	0.00	0.00	0.04	0.00	0.00
MARTA ELORZA TRUEBA	0.04	0.00	0.00	0.00	0.04	0.00	0.00
RICARDO DE GUINDOS LATORRE	0.02	0.00	0.00	0.00	0.02	0.00	0.00

Total percentage of voting rights held by the Board of Directors	0.32
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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

Covadonga Betegón Biempica, who tendered her resignation as a director on 30 November 2018, had notified the Company of indirect ownership of 10,000 voting rights, corresponding to 0.006% of share capital.

- 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

Up until the General Meeting of 15 June 2018, the Company held own shares as treasury shares up to the maximum level allowed by law, 10% of share capital, which at that time meant ownership of 16,000,000 shares. At the General Meeting, one of the resolutions adopted was a reduction in share capital through redemption of all treasury shares. No treasury share transactions have taken place since.

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	74.94

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.

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:

General Meeting date	Attendance data				
	% In person	% By proxy	% remote voting		Total
			Online	Other	
21/04/2016	12.23	70.70	0.00	0.00	82.93
Free float votes	12.23	30.70	0.00	0.00	42.93
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

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.dfdurofelguera.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
ACACIO FAUSTINO RODRIGUEZ GARCIA		Other external	CHAIRMAN	23/06/2011	22/06/2017	GENERAL MEETING RESOLUTION
ALEJANDRO LEGARDA ZARAGÜETA		Independent	DIRECTOR	23/07/2018	23/07/2018	CO-OPTION
JUAN MIGUEL SUCUNZA NICASIO		Independent	DIRECTOR	23/07/2018	23/07/2018	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

Name of director	Representative	Director category	Position on the Board	Date first appointed	Last re-election date	Election procedure
LORETO ORDOÑEZ SOLIS		Independent	DIRECTOR	30/11/2018	30/11/2018	CO-OPTION
MARTA ELORZA TRUEBA		Independent	DIRECTOR	30/08/2018	30/08/2018	CO-OPTION

Total number of directors	8
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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
JOSE MANUEL GARCÍA HERMOSO	Independent	15/06/2018	30/11/2018	Audit Committee	YES
MARIA COVADONGA BETEGÓN BIEMPICA	Independent	29/11/2018	30/11/2018		YES
ELENA CABAL NORIEGA	Independent	22/06/2017	23/07/2018	Audit Committee	YES
FRANCISCO JAVIER GONZÁLEZ CANGA	Independent	22/06/2017	23/07/2018	Nomination and Remuneration Committee	YES
INVERSIONES RÍO MAGDALENA, S.L.	Proprietary	22/06/2017	26/03/2018	Audit Committee	YES
INVERSIONES EL PILES, S.L.	Proprietary	22/06/2017	26/03/2018		YES
INVERSIONES SOMIO, S.L.	Proprietary	22/06/2017	26/03/2018		YES
ANGEL ANTONIO DEL VALLE SUAREZ	Other external	22/06/2017	25/06/2018		YES

Reason for leaving and other remarks

Alejandro Legarda Zaragüeta was co-opted by the Board to replace Elena Cabal Noriega.
Juan Miguel Sucunza Nicasio was co-opted by the Board to replace Francisco Javier González Canga.
Marta Elorza Trueba was co-opted by the Board to replace Ángel Antonio del Valle Suárez.
José María Orihuela Uzal was co-opted by the Board to replace José Manuel García Hermoso. Loreto Ordóñez Solís was co-opted by the Board to replace Covadonga Betegón Biempica.

All the above appointments are yet to be ratified by the shareholders at a General Meeting.

The reasons indicated by the Directors at the time they tendered their resignation are indicated below:

1. Inversiones Río Magdalena, S.L. indicated the existence at that time of uncertainty surrounding the future of the Company that generated personal fatigue. In addition, this Director desired to avoid any conflict that might arise as a result of its position as both a director and shareholder.
2. Inversiones El Piles, S.L. indicated that it could no longer assume the burden of its presence on the Board of Directors.
3. Inversiones Somió, S.L. indicated that it could no longer assume the burden of its presence on the Board of Directors.
4. Elena Cabal Noriega indicated that, after a year as a Director and considering the difficult circumstances in which the company was immersed, the success of the capital increase and entry into effect of the Refinancing Agreement meant that her goals had been fulfilled and she could now step down.
5. Francisco Javier González Canga, in the light of the success of the capital increase and the entry into effect of the Refinancing Agreement, took the view that his time as a Director had come to an end.
6. José Manuel García Hermoso indicated that one of the reasons for his resignation was the successful achievement of the objectives for which he had been appointed Director: (i) the refinancing of the company and (ii) the fulfilment of a share capital increase to enable the Company to continue as a going concern. In addition, reaching an agreement with CESCE for it to underwrite the guarantees line was the final milestone of his role as a Director. A further stated reason for his resignation was his intention to ease the formation of a Board more in line with the new shareholder structure.
7. Ms Covadonga Betegón Biempica indicated as reasons for her resignation the change in the capital structure of the Company and the obviously necessary that should take place in the management body after the success of the capital increase.

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	12.50

He was appointed Chief Executive Officer on 30 November 2018. After the Chairman ceased to have general powers, he became an executive director, and is now the only director of this type on the Board.

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
ALEJANDRO LEGARDA ZARAGÜETA	A graduate of Industrial Engineering, with a master's degree in Economics and Business Management and a doctorate in Innovation Economics from the Universidad Politécnica de Madrid. He has held senior positions at several companies. For more than 20 years he was the CEO of the Construcciones y Auxiliar de Ferrocarriles (CAF) group, where he currently remains a director. He also has extensive experience as an independent director at listed companies and is the Chairman of Nortegas Energía y Distribución, the second largest gas distributor in Spain (Asturias, Basque Country and Cantabria).
JUAN MIGUEL SUCUNZA NICASIO	A graduate of Industrial Engineering. He is the CEO of the Berkelium Group, Chairman of Grupo Azkoyen, and Chairman of the Supervisory Board of Primion Technology AG. He is the President of the European business association FEMFM, and a Senior Advisor to Rail - Knorr Bremse AG. He has been a Director of Sodena, the Chairman of Adi Metal Parts and the CEO of Nucap Europe. He is currently a member of the Advisory Committee of Caixabank in Navarre and of the main Advisory Committee of Caixabank. He is also Vice President of CEAPI (a business association seeking ties with Latin America) and a member of IESE's Territorial Board.
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.

INDEPENDENT DIRECTORS	
Name of director	Profile
MARTA ELORZA TRUEBA	A graduate of Economics and Business Science and a registered auditor. She was an auditor for Arthur Andersen, S.A, and was appointed as a partner in 1994; she specialised in Treasury and Strategy Planning. She worked with the Argentaria Group on internal and corporate organisational matters, and its listing on the New York Stock Exchange. At the Santander Group, she was a Deputy Senior Executive Vice President, having also held the following positions: Head of Accounting, Control and IT for the acquisition of Latin American banks at Santander Investment, and Head of Administration and Internal Control for the Treasury and Asset Management back-office functions. At Santander Group, as Deputy Senior Executive Vice President of the Internal Audit Division, she was a director at ABN AMRO, overseeing Santander's banking businesses in Italy, Brazil, Uruguay and Paraguay. She was the Head of Technology and Operations at the Global Banking & Markets, Private Banking, and Asset Management divisions, and the Head of Operations in the Technology and Operations Division until 2016. She has chaired the boards of Santander Back-Offices Globales Mayoristas S.A., Santander BackOffices Globales Especializados, S.A. and Reintegra S.A., and held directorships at Santander Operaciones Retail, S.A., Santander Titulizaciones, S.A., Konecta, S.A., Banco Antoveneta, S.A, Zurich Santander Insurance America, S.A., Santander Seguros y Reaseguros, S.A. She is currently on the boards of the following companies: Bankia Fondos, S.A., Unlcorp. Vida, Cía Seguros y Reaseguros, S.A., Unión del Duero, Cía de Seguros de Vida, S.A. At all these companies, she chairs the Audit and Risk Committee.
LORETO ORDOÑEZ SOLIS	Having graduated in Mining Engineering from the Universidad de Oviedo and the Free University of Brussels (Belgium), she was awarded a master's degree in Combustion and Energy at the University of Leeds (United Kingdom) and an MBA from IESE. In 2017 she was inducted with the grade of Chevalier into the Ordre national du Mérite by the President of the French Republic. She is currently the Councillor for Foreign Trade of France and the Vice Chairman of the Board of the Chamber of Belgium and Luxembourg in Spain, a director at several companies of the ENCIE group at national and international level, and a member of the Boards of the French Chamber of Commerce, of the Asociación Diálogo para la Amistad Hispano-Francesa and of Círculo de Empresarios. She has a track record of more than twenty years in the energy sector, where has held senior positions, nationally and internationally, in operations management, business development and local and international investment. She is the Country Manager and CEO of ENCIE in Spain.

Total number of independent directors	6
Percentage of Board	75.00

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 <i>Ley de Sociedades de Capital</i> [Spanish Companies Act], article 529 <i>duodecies</i> (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 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 Mississippi 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.

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
			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 LCZ Oil&Gas Trinidad and Tobago Ltd.

Total number of other external directors	1
Percentage of Board	12.50

State any change in status that has occurred during the period for each director:

Name of director	Date of change	Previous Status	Current status
ACACIO FAUSTINO RODRIGUEZ GARCIA	30/11/2018	Executive	Other external

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 2018	Year 2017	Year 2016	Year 2015	Year 2018	Year 2017	Year 2016	Year 2015
Executive					0.00	0.00	0.00	0.00
Proprietary					0.00	0.00	0.00	0.00
Independent	2	1			33.33	33.33	0.00	0.00
Other external					0.00	0.00	0.00	0.00
Total	2	1			25.00	12.50	0.00	0.00

It should be noted that calculation of the percentages of women in the independent category in 2018 and 2017 is based on the number of members of that category in each year respectively. So the percentage for 2018 was calculated on the basis of 6 independent directors while the percentage for 2017 was calculated on the basis of 3 independents. This is the reason why there is barely a difference between 2017 and 2018 in percentage terms, despite the larger number of women directors in 2018.

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. Remarks

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.

However, as a result of the restructuring process in which the company is immersed as a result of the refinancing agreement reached with a majority of its financial creditors, and the changes to its shareholder structure (see comments in section A.1.), during the third four-month period of 2018 there have been significant changes in the membership of the Company's management body and its committees, so as to strengthen the corporate governance system.

For this reason, the Nomination and Remuneration Committee, within its objectives for 2019, intends to review and adapt the corporate governance texts, including these policies, to align them with current needs and the latest recommended practices in this area. The aim is to strengthen the Company's corporate governance system in order to achieve enhanced transparency and operational effectiveness.

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 means

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 the most authoritative case-law 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.

During 2018 several vacancies arose on the Board. The Nomination and Remuneration Committee gave preference to the selection of female candidates in those cases where there are similar professional profiles, thus making progress in achieving a balanced presence of women and men on the body.

Hence the appointment was proposed of the directors Marta Elorza Trueba, Loreto Ordóñez Solis and Covadonga Betegón Biempica. However, Ms Betegón resigned and is no longer a Director. Ms Ordóñez was co-opted to replace her.

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. In 2018, following the criteria explained in section C.1.6 above, three independent women directors were appointed (one of whom resigned within 2018) on the basis that their professional profiles matched the interests of the Company. As explained in the section C.1.7, the number of women on the Board accounts for 25% of all directors and 33.33% of independent directors. Therefore, the presence of women on the Board cannot be considered to be scarce or non-existent.

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.

At present, 25% of the members of the Board of Directors are women. Given the increase in the number of women directors (see C.1.4.), the Company considers that its policy for the selection and appointment of directors is in line with the objectives of gender inclusion and positive discrimination that guide the Company in the appointment of new Directors.

Moreover, as indicated in section C.1.5., in 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 Recommendation 14 of Spain's code of good governance practices (Código Unificado de Buen Gobierno) by 2020, so that women directors account for at least 30% of the total.

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.1.9 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 articles of association.

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
JUAN MIGUEL SUCUNZA NICASIO	AZKOYEN, S.A.	CHAIRMAN
RICARDO DE GUINDOS LATORRE	EUROPAC	DIRECTOR

Juan Miguel Sucunza Nicasio is the natural-person representative of the proprietary director Bernkinbest Capital, S.L. on the Board of Directors of Azkoyen, S.A.

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)	976
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	
JUAN JOSÉ HERRERO RODRÍGUEZ	HEAD OF CORPORATE PRODUCTION	
JAVIER GARCÍA LAZA	HEAD OF CORPORATE AFFAIRS	
JOSE CARLOS CUEVAS DE MIGUEL	HEAD OF ADMINISTRATION AND FINANCE	
SECUNDINO FELGUEROSO FUENTES	HEAD OF LEGAL AFFAIRS	
MIGUEL ÁNGEL PEÑA PENILLA	HEAD OF CORPORATE MARKETING AND SALES	
LUIS MARÍA DEZA GORDO	HEAD OF STRATEGY AND DEVELOPMENT	
Total senior management remuneration (thousand euros)		1,109

On 30 November 2018 there were changes in the organisational structure of the company. All the executives who formed part of the Management Committee during 2018 are within the scope of the disclosure, even though some of them have ceased to be considered senior executives. Miguel Ángel Peña Penilla was appointed on 1 December 2018 and Luis María Deza Gordo held his position until 30 November 2018.

Total senior management remuneration is the total received by all senior management members, including those who have ceased to be senior management staff.

C.1.15 State whether the Board rules were amended during the year:

Yes
 No

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;
- Inform of any proposals for appointment of all other directors for their nomination by 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.
- 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 amendment

The annual evaluation did not 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

As explained earlier, as a result of the restructuring process in which the company is immersed as a result of the refinancing agreement reached with a majority of its financial creditors, and the changes to its shareholder structure (section A.1.), during the third four-month period of 2018 there have been significant changes in the membership of the Company's management body and its committees, so as to strengthen the corporate governance system.

Therefore, to carry out the evaluation process for 2018, a blind questionnaire was sent to each Director containing thirty questions that were answered directly to a company outside the group. That company then highlighted the ten issues that Directors believed could be improved, so that the Nomination and Remuneration Committee should propose appropriate improvements for 2019.

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 2016, the Board's annual evaluation was assisted by an external consultant with whom the Company currently has in place a consultancy services contract.

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 or are involved in any subsequent court proceedings.

In particular, if a director is indicted or if an oral hearing is opened with respect to any of the offences indicated in company law, the Board of Directors shall promptly open an investigation and, in the light of the particular circumstances, decide whether or not the Director should be called on to resign. The Board should give a reasoned account of such determinations in the Annual Corporate Governance Report.

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	21
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
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Please specify the number of meetings held by each committee of the Board during the year:

Number of meetings held by the Audit Committee	15
Number of Meetings held by the Appointments and Remuneration Committee	13

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	21
% 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	19
% 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 that might affect the audit opinion and ensuring that the financial statements present fairly the Company and its subsidiaries (consolidated). The Chairman of the Audit Committee reports all significant issues to the Board of Directors, which makes a final decision. Throughout the year, the Audit Committee holds regular meetings with the auditors to identify any issues and help resolve them. The External Auditor visits the sites where the main projects are in progress to gain a better understanding of the situation. 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 the Ley de Auditoría de Cuentas (Spanish Audit Act). 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)	541	0	541
Amount invoiced for non-audit services/Amount for audit work (in %)	42.60	0.00	38.29

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	3	3

	Separate	Consolidated
Number of years audited by the current audit firm/Number of years that the company or its group has been audited (in %)	10.00	10.00

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 separate income statement, the consolidated income statement and the income statements of each subsidiary, 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.

However, given that during 2018, in the first half especially, the Board focused on reaching a Refinancing Agreement with its creditor banks, there was special information provided on this matter at all meetings.

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. In addition, directors must place their position at the disposal of the Board and, where appropriate, formally resign, when circumstances arise that could harm the standing and reputation of the Company; in particular, when a director is a person of interest in a criminal investigation or subsequent proceedings.

In particular, if a director is indicted or if an oral hearing is opened with respect to any of the offences indicated in company law, the Board of Directors shall promptly open an investigation and, in the light of the particular circumstances, decide whether or not the Director should be called on to resign.

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
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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) 60% of one year's gross salary in the event of termination from 1 January 2018 to 31 December 2018, and 40% of one year's gross salary in the event of termination from 1 January 2019 to 31 December 2019. (iii) 70% of one year's gross salary in the event of termination from 1 January 2018 to 31 December 2018, and 40% of one year's gross salary in the event of termination from 1 January 2019 to 31 December 2019.

State if 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 Committee		
Name	Position	Category
MARTA ELORZA TRUEBA	CHAIRMAN	Independent
JUAN MIGUEL SUCUNZA NICASIO	MEMBER	Independent
ALEJANDRO LEGARDA ZARAGÜETA	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% other external directors	0.00

In 2018, due to changes in shareholders and structure as a result of the refinancing process, both the membership of the Committee and the number of members have changed.

The changes in the membership of the Audit Committee in 2018 are detailed below.

Committee membership over the year was as follows:

Francisco Javier González Canga - Chairman - Independent - From: 23/06/2017 To: 23/07/2018
 Elena Cabal Noriega - Member - Independent - From: 23/06/2017 To: 23/07/2018
 José Manuel García Hermoso (1) - Member - Independent - From: 29/12/2017 To: 30/11/2018
 Alejandro Legarda Zaragüeta (2) - Member - Independent - From: 23/07/2018 To: Current date
 Juan Miguel Sucunza Nicasio - Member - Independent - From: 23/07/2018 To: Current date
 Marta Elorza Trueba - Chairman - Independent - From: 20/09/2018 To: Current date
 Secundino Felgueroso Fuentes - Non-member Secretary -

- (1) Since 30 November 2018, with the resignation of the independent director José Manuel García Hermoso, the Audit Committee has once again been made up of three members.
- (2) Mr Legarda, in his capacity as Lead Independent Director, acted as acting Chairman at two committee meetings, until the appointment of Ms Elorza as Chairman.

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 Bylaws and the Internal Regulations of the Board of Directors, the latest amendment of which was approved by the Board of Directors on 23 December 2015.

Based on the report issued by the Nomination and Remuneration Committee, and following the recommendations of the Spanish code of good governance practices for listed companies, the Board of Directors, in order to make the Audit Committee more independent, reduced the number of its members to three, all of them being independent. This strengthens internal audit and control and enables the Company to advance towards achieving better corporate governance.

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 based on a report from the Nomination and Compensation Committee from among independent Directors. The Chairman must be replaced every four (4) year and may be re-elected after one (1) year has elapsed since removal.

Francisco Javier González Canga was Chairman of the Audit Committee until 23 July 2018, when he tendered his resignation. On 20 September 2018, the Board of Directors, at the proposal of the Nomination and Remuneration Committee, resolved to appoint the independent director Marta Elorza Trueba as member and Chairman of the Audit Committee based on her proven professional experience in auditing and accounting matters.

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	MARTA ELORZA TRUEBA
Date of appointment of the Chairman	20/09/2018

Nomination and Remuneration Committee		
Name	Position	Category
JUAN MIGUEL SUCUNZA NICASIO	CHAIRMAN	Independent
ALEJANDRO LEGARDA ZARAGÜETA	MEMBER	Independent
IGNACIO SORIA VIDAL	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% other external directors	0.00

Changes in the composition of the Nomination and Remuneration Committee in 2018:

Elena Cabal Noriega - Chairman - Independent - From: 14/11/2017 To: 23/07/2018
 Javier González Canga - Member - Independent - From: 23/06/2017 To: 23/07/2018
 Inversiones Somió, S.L. (1) - Member - Proprietary - From: 23/06/2017 To: 26/03/2018
 Juan Miguel Sucunza Nicasio (2) - Chairman - Independent - From: 23/07/2018 To: Current date
 Ignacio Soria Vidal - Member - Independent - From: 29/05/2018 To: Current date
 Alejandro Legarda Zaragüeta - Member - Independent - From: 23/07/2018 To: Current date
 Secundino Felgueroso Fuentes - Non-member Secretary -

(1) Represented by José Manuel López Vázquez and since 31 January 2018 by Antonio Camps Guerrero
 (2) On 20 September 2018, the Board, at the proposal of the Nomination and Remuneration Committee, appointed the independent director Juan Miguel Sucunza Nicasio as Chairman of the Nomination and Remuneration Committee.

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 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 23 December 2015.

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, and since 24 May 2018, the committee comprises three members, based on a report issued by the Nomination and Remuneration Committee, to adapt the number of members of the Audit Committee to the current size of the Board of Directors. All committee members are independent directors.

Until 23 July 2018, the Committee was formed by Elena Cabal Noriega, as Chairman, and Francisco Javier González Canga and Ignacio Soria Vidal as members. All members belonged to the category of independent. Upon the resignation on that date of Ms Cabal and Mr González, the positions of the Committee were taken up by the independent directors Alejandro Legarda Zaragüeta and Juan Miguel Sucunza Nicasio, who remain in office.

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 2018		Year 2017		Year 2016		Year 2015	
	Number	%	Number	%	Number	%	Number	%
Audit Committee	1	33.30	1	25.00	0	0.00	0	0.00
Nomination and Remuneration Committee	0	0.00	1	33.33	0	0.00	0	0.00

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 and the Regulations of the Board of Directors, which 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 the Appendix to Section H.

No amendments were made to the regulations governing board committees in the year.

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1. Describe, if applicable, the procedure for approval of related-party and intragroup transactions.

For related party transactions involving a purchase or sale that may be in competition with third parties, the related party must submit its bid to the same analysis as those presented by third parties on an equal footing. The bids shall be analysed and evaluated by the relevant department, normally Procurement, which shall present its conclusions to the Board of Directors. These types of transactions must always be approved by the Board, whether carried out directly by DF or any of its subsidiaries.

Intragroup transactions are analysed in the same manner as those indicated above and if awarded to subsidiaries, the amount of the intragroup contract is separated from the Group's total contract amount.

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 20 December 2018, the Board approved the updated version of the "Risk Control and Management Policy" in which, in accordance with its powers under Article 5 of its Regulations, 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 Managers

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 2018 related to financing capacity, exchange rate fluctuations 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:

- There have been changes 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 capital increase and financial debt restructuring process was successfully completed in July, allowing for an improvement in the company's liquidity situation and working capital, reduction and restructuring of financial liabilities and rebalancing of the financial position. In addition, the Company is drawing on the line of guarantees agreed under the Financing Contract that will help attract new contract awards.
- The liquidity monitoring procedure has been strengthened to improve financial management.
- Monitoring of project progress and controls over financial and management reporting are being strengthened.

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.

Finally, the Internal Audit area 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 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 information.

As to ICFR, responsibilities are ascribed by the internally developed ICFR governance model approved by the Board at its meeting of 20 December 2018.

- 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:

During 2018, the Duro Felguera Group carried out a thorough review and update of the company's Code of Conduct. The updated version was approved by the Board of Directors at its meeting of 20 December 2018.

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.
- Commitments 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 supervision, consultation and interpretation of the Code of Conduct in 2018 is the responsibility of the Compliance Department.

- 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 immediate superior, or the Head of Human Resources.
- Ethics Line (<https://lineaetica.durofelguera.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.
- 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 2018, the Audit Committee and the Board of Directors promoted ICFR training in relation to internal control and risk management. DF thus ran training activities during 2018 provided by external experts, for employees involved in the preparation and review of the financial information of all departments and areas involved in the company, especially the Economic-Financial Department and Internal Audit.

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. Owing to the balance sheet restructuring of July 2018, the interim financial statements for the month of July were audited instead of those for the month of June. This was disclosed when the company's second-quarter results were filed at the CNMV, Spain's securities market regulator.
CNMV.

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 2018 and will continue to be reinforced 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.

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 2018 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 recorded that 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 this respect, in 2018 work done to revise and update the DF Accounting Policies Manual to bring 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.

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 2018, 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 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 from:

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 2018, 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 2018.

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 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

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 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 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 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 Complies partially Explanation

7. The company should broadcast its general meetings live on the corporate website.

Complies Explanation

Although at the last General Meeting the percentage of shareholders present was not very high, because the largest shareholder, INVERSIONES SOMIÓ, S.L., at that time the owner of 25% of share capital, did not attend, in the light of the high percentage of participation even in the absence of this shareholder we believe that webcasting of the General Meeting would not have had a direct effect by way of 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 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 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:
- Immediately distributes the additions and new proposals.
 - 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.
 - 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.
 - 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 [] 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. Where two profiles are objectively similar, priority will be given to the least represented gender.

In accordance with the provisions of the Company's Director Selection Policy and working towards the objective that by 2020 a proportion of 30% of directors should be women, 25% of directors are now women. In 2018, the Board appointed another woman director, Covadonga Betegón Biempica, who resigned in November, and whose place on the Board was taken up by another woman.

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.

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 [] 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 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 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 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 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 Not applicable

In 2018, seven directors gave up their place on the board before their tenure expired. Section C.1.2. explains the reasons provided by the directors for their resignation.

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 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 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 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 [] Not applicable [X]

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 be 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 []

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 [] 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 [] 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 [] 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 []

Risk management was made compliant with Recommendation 46 of the CUBG, Spain's code of good governance practice, in December 2018. See section E.2.

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 []

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 [] 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 [] 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 [] 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 Articles of Association 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 [] Not applicable [X]

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 [] Not applicable [X]

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 [] Not applicable [X]

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 []

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 [] Not applicable []

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 [] 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:

EXPLANATORY NOTES

Section C.1.33.

The financial statements for the previous year have not attracted any reservations or qualifications. However, one paragraph specifically addresses the issue of “going concern”, as quoted below: At 31 December, the Group had negative working capital of €207 million, had made a consolidated loss of €271 million, and had negative consolidated equity of €165 million. The Group's parent company showed negative equity of €181 million. In accordance with article 363 of the Spanish Companies Act, the parent company was therefore required to dissolve. As indicated in the financial statements themselves, the parent company was in the process of restructuring its debt with its main banks. Fresh financing and a line of guarantees were agreed, subject to a successful capital increase. The directors of the parent company prepared the consolidated financial statements on a going concern basis in accordance with the favourable outlook for the conclusions of the negotiation process with the banks and the success of the capital increase. These circumstances faced the auditor with material uncertainty as to the Group's ability to continue as a going concern.

Section C.2.1.

AUDIT COMMITTEE

Continuation of the section relating to the functioning of the Committee and the key actions carried out during the 2018 financial year:

Functions:

1. The Audit Committee should have the following functions over and above those attributed to by law, the Bylaws or these Regulations, or those assigned by the Board of Directors:
 - a) Inform the General Meeting of any issues that may arise as regards affairs for which the committee is responsible and, in particular, regarding the outcome of the audit, explaining how it has contributed to the integrity of financial information and the role that the Committee has played during this process.
 - b) Supervise the efficiency of the Company's internal controls, internal audit and risk management systems, in addition to discussing with the accounts auditor any significant weaknesses in the internal control system detected in 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 the Audit 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; participate actively 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.

c) 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.

d) Monitor the independence of the unit handling the internal audit function, which shall report functionally to the Chairman of the Committee and oversee that the internal control and reporting systems function properly; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve 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.

The head of the unit handling the internal audit function shall present an annual work programme to the Committee, inform it of any incidents arising during its implementation and submit an activities report at the end of each year.

e) Submit 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 their engagement and regularly request information on the audit plan and its execution from them, in addition to ensuring his/her independence in the exercise of audit duties.

f) 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.

In this respect, the Committee shall ensure that the remuneration of the external auditor does not compromise its quality or independence.

g) Ensure that the Company notifies any change of external auditor to the Comisión Nacional del Mercado de Valores as a price-sensitive disclosure (*hecho relevante*), accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

h) In the event that the external auditor resigns, examine the circumstances which caused said resignation.

i) 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.

j) Ensure fulfillment 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.

k) 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.

- l) 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:
1. The financial information that the Company must regularly make public;
 2. The creation or acquisition of shares in special purpose entities or that are registered in countries or territories considered tax havens; and
 3. 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.
4. Fundamental changes or corporate transactions the Company is planning, their economic conditions and accounting impact and, when applicable, the exchange ratio proposed.
- m) Evaluate the findings of each audit and the responses by the management team to the recommendations made by the auditors.
- n) Strive to ensure that the Board of Directors can present the Company's accounts at a 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.
- o) Mediate in the case of discrepancies between the opinions of the management team and the auditors with respect to the principles and standards applicable to the preparation of the financial statements.
- p) Inform about proposals to amend any accounting standards and principles suggested by senior management, as well as any required by law.
- q) 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.
- r) 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:
- i. Determine the internal standards and procedures necessary to ensure the monitoring of the code of conduct and regulatory compliance in the various areas of the Company, and ensuring that they remain up to date.
 - ii. Inform, prior to approval by the Board of Directors, the General Code of Conduct at the Company and its Group, the Internal Code of Conduct in Securities Markets and the Internal Rules for the Chief Compliance Officer of the Company.
The Committee shall also report any amendments to these standards or principles, or implementing regulations, before they are submitted for approval by the Board.
 - iii. Inform, before presentation to the Board of Directors, any internal control procedures and standards set out in the General Code of Conduct that the Chief Compliance Officer lays before the Company's Board of Directors for approval.
 - iv. Evaluate all aspects of the non-financial risks the company is exposed to (including operational, technological, legal, social, environmental, political and reputational risks), providing this is not expressly attributed to another Committee.
- s) Perform any other duties entrusted to it by the Board of Directors.

The provisions of e), f) and k) above shall be understood to be without prejudice to auditing regulations.

2. The Audit Committee shall prepare an annual activities report, which shall be used as a basis for the evaluation by the Board of Directors, and may be published on the Company's website sufficiently in advance of the Ordinary General Meeting.

Main actions in the year:

1. Proposed draft of the Risk Control and Management Policy.
2. Revision of the Code of Conduct and submission to the Board.
3. Restructuring of functions, with the definition of a professional profile dedicated to risk control directly reporting to the Audit Committee.
4. Evaluation of the SOIF system and implementation of improvements.
5. Review of the risk map.

NOMINATION AND REMUNERATION COMMITTEE

Continuation of the section relating to the functioning of the Committee and the key actions carried out during the 2018 financial year:

Functions:

The Nomination Committee should have the following functions over and above those attributed to by law, the Bylaws or these Regulations, or those assigned by 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 fulfil 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 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.
- d) 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.
- e) Inform of any proposals to the Board of Directors for appointment or dismissal of senior management and the basic conditions of their contracts.
- f) 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.
- g) Propose to the Board of Directors, the Directors' and managing directors' remuneration policy and of whoever else performs senior management duties under the direct supervision of the Board of Directors, the Executive Committee or the Chief Executive Officers, in addition to the individual remuneration and other contractual conditions of executive directors, ensuring compliance with the same.
- h) 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.
- i) Verify the information on Director and senior officers' pay contained in corporate documents, including the Annual Directors' Remuneration Statement.
- j) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- k) Ensure compliance with the Company's corporate governance rules. In this respect, the Nomination and Remuneration Committee shall be responsible for:
 - i. Supervision of transparency in corporate actions.

- ii. 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.
 - iii. 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.
- l) Supervise compliance with the Company's corporate social responsibility policy. In this respect:
- i. 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 goals of its corporate social responsibility policy and the support instruments to be deployed.
- The corporate strategy with regard to sustainability, the environment and social issues.
- Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
- The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- The mechanisms for supervising non-financial risk, ethics and business conduct.
- Channels for stakeholder communication, participation and dialogue.
- Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Any report issued by the Nomination and Remuneration Committee on the Company's corporate social responsibility policy shall be prepared using an internationally accepted methodology, and published on the Company's website sufficiently in advance of the Ordinary General Meeting.

- ii. The Nomination and Remuneration Committee shall also be responsible for overseeing the communication and relations strategy with shareholders, including small and medium-sized shareholders; monitoring corporate social responsibility strategy and practices, and assessing compliance in this respect; monitoring and evaluating the Company's interactions with its stakeholder groups; coordinating non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.
- m) Within the scope of its duties, raise to the Board any proposals deemed advisable for its eventual analysis and approval.
- n) Perform any other duties entrusted to it by the Board of Directors.

Key actions carried out in 2018 included:

1. Review and nomination of the Executive Chairman.
2. Proposal for changes in Senior Management.
3. Proposal to appoint Directors by co-option.
4. Proposal to the shareholders at the General Meeting to ratify the appointment of co-opted Directors and appoint a further Director.
5. Proposal to appoint members of the Audit Committee and of the Nomination and Remuneration Committee.
6. Proposal for appointment of the Chief Executive Officer.
7. Proposal for appointment of Senior Managers.

This Annual Corporate Governance Report was approved by the Board of Directors of the company at the meeting held on:

29/03/2019

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 2018**

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 2018

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 27, 2018, we have performed certain procedures on the accompanying "ICFR-related information" included in the 2018 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 2018 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

March 29, 2019



APPROVAL OF THE BOARD OF DIRECTORS

Chairman	Acacio Faustino Rodríguez García
Chief Executive Officer	José María Orihuela Uzal
Director	Juan Miguel Sucunza Nicasio
Director	Alejandro Legarda Zaragüeta
Director	Ricardo de Guindos Latorre
Director	Marta Elorza Trueba
Director	Ignacio Soria Vidal
Director	Loreto Ordóñez Solís
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 Comprehensive 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 2018, 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.

Madrid, 29 March 2019

Acacio Faustino Rodríguez García
Chairman

Secundino Felgueroso Fuentes
Secretary, non-director