Audit Report on Financial Statements
issued by an Independent Auditor

DURO FELGUERA, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2018

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AUDIT REPORT ON 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 35)

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

Audit report on the financial statements

Opinion

We have audited the financial statements of DURO FELGUERA, S.A. (the Company), which comprise the balance sheet as at December 31, 2018, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

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 financial statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the 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 2.2. to the accompanying financial statements, which explains that the 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 equity structure. Moreover, as explained in the aforementioned note, updated cash forecasts show the need for additional financing. Consequently, the Company and its 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 company's directors have prepared the accompanying 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 company'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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

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

Recognition of income from construction contracts

Description

As explained in Note 3.17 to the accompanying financial statements, revenue from construction contracts are recognized using the stage of completion method, in conformity with the applicable regulatory framework for financial reporting.

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

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

Our response

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

- We gained an understanding of the processes established by Company´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 Company'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 sale 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 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 Company.

Financial restructuring and capital increase

Description

As explained in Notes 1 and 15 to the accompanying financial statements, in July 2018, the 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.

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 Company and, with the collaboration of our internal experts, reviewing the valuation applied by the Company 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 financial statements in conformity with the regulatory framework for financial reporting applicable to the Company.

Estimation of impairment losses for the main past-due receivables

Description	As explained in Note 11 to the financial statements, at December 31, 2018, "Trade receivables," net of impairment losses, amounted to 58 million euros. As explained in the aforementioned notes, of these amounts, the main past-due receivables pertain to Termocentro (Venezuela). 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 3 and 11 to the accompanying financial statements. The identification of impaired credit exposures and the determination of recoverable amount 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 and, specifically, on the Termocentro project (Venezuela) 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. ▶ 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 Company´s 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 financial statements. ▶ Reviewing the disclosures included in the notes to the accompanying financial statements in conformity with the regulatory framework for financial reporting applicable to the Company.

DURO FELGUERA Australia Pty Ltd – Roy Hill Project

Description	As disclosed in Note 33 to accompanying financial statements, the subsidiary DURO FELGUERA Australia Pty Ltd received a partial arbitral award from the Singapore International Arbitration Centre (SIAC) as a result of the arbitration proceedings it has undergone with SAMSUNG C&T Corporation relating to the Roy Hill Project. This award was recognized in the accompanying financial statements and represents a positive impact of 38 million euros as a result of partially reversing the provision for liabilities. Given the relevance of this issue we determined the analysis and recognition of the accounting effects of this award on the profit and loss account to be a key audit matter.

Our response

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

- 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 33 to the accompanying financial statements. Obtaining and reviewing for this purpose, with the collaboration of our legal specialists, the analyses and assessments conducted by the Company'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 financial statements in conformity with the regulatory framework for financial reporting applicable to the Company.

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

Description

We draw your attention to the matter described in Note 28 to the accompanying financial statements, which states that on December 14, 2017, the Company disclosed the receipt of the ruling from Madrid Central Court of Instruction No. 2, allowing the lawsuit filed against Dura 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 Company.
- We reviewed the disclosures included in the notes to the financial statements in conformity with the regulatory framework for financial reporting applicable to the Company.

Other information: management report

Other information refers exclusively to the 2018 management report, the preparation of which is the responsibility of the Company's directors and is not an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the management report. In conformity with prevailing audit regulations in Spain, our responsibility in terms of the 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 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 management report, which requires us to evaluate and report on the consistency of said information in the financial statements, based on our knowledge of the Company 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 management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the management report includes a reference to the fact that the non-financial Information referred to in paragraph a) above, is provided in the consolidated management report of DURO FELGUERA Group, in which the Company is integrated; that the information contained in the Annual Corporate Governance Report referred to the mentioned paragraph, is included in the management report, and that the remaining information contained therein is consistent with that provided in the 2018 financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the directors and the audit committee for the financial statements

The directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company'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 director's 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 Company'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 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 Company to cease to continue as a going concern.

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

We communicate with the audit committee of the 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 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 of the Company, we determine those matters that were of most significance in the audit of the 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)

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José Enrique Quijada Casillas

March 29, 2019

Duro Felguera, S.A.

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

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DURO FELGUERA, S.A.

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

ASSETS	Note	At 31 December 2018	2017
NON-CURRENT ASSETS			
Intangible assets	**6**	**10,798**	**13,146**
Property, plant and equipment	**7**	**16,238**	**16,737**
Investment properties	**8**	**13,652**	**13,880**
Non-current investments in group companies and associates		**38,581**	**64,672**
Equity instruments	**10**	31,197	64,672
Loans		7,384	-
Non-current investments	**9**	**5,013**	**5,582**
Equity instruments		4,445	5,480
Loans to companies	**11**	516	85
Other financial assets	**11**	52	17
Deferred tax assets	**21**	**37,924**	**4,728**
TOTAL NON-CURRENT ASSETS		**122,206**	**118,745**
CURRENT ASSETS			
Non-current assets held for sale	**5**	**-**	**27,395**
Inventories	**13**	**5,054**	**4,508**
Trade and other receivables	**9-11**	**158,024**	**202,862**
Trade receivables		101,789	145,643
Trade receivables from group companies and associates	**31**	12,499	28,024
Other receivables		25,122	19,205
Personnel		158	101
Current tax assets		107	108
Other receivables from Public Administrations		18,349	9,781
Current investments in group companies and associates	**9-11-31**	**199,011**	**170,908**
Loans to companies		106,754	4,448
Other financial assets		92,257	166,460
Current investments	**9-11**	**15,745**	**4,749**
Loans to companies		-	14
Derivatives	**9-12**	-	1,052
Other financial assets		15,745	3,683
Prepayments for current assets		**1,371**	**1,227**
Cash and cash equivalents	**9-14**	**78,546**	**58,896**
TOTAL CURRENT ASSETS		**457,751**	**470,545**
TOTAL ASSETS		**579,957**	**589,290**

The accompanying notes 1 to 34 are an integral part of these financial statements.

DURO FELGUERA, S.A.

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

		At December 31	
EQUITY AND LIABILITIES	**Note**	**2018**	**2017**
EQUITY			
Capital and reserves		**9,932**	**(179,432)**
Capital	**15**	48,000	80,000
Share premium	**15**	79,152	-
Reserves	**15**	(8,242)	159,900
Own shares and equity holdings	**15**	-	(87,719)
Prior periods' profit and loss	**15**	(181,063)	(104,091)
Profit/(loss) for the year	**15**	63,992	(227,522)
Other equity instruments	**18**	8,093	-
Valuation adjustments		**697**	**(3,646)**
Hedging transactions and other	**12**	-	789
Available-for-sale financial assets		-	(1,320)
Translation differences		697	(3,115)
Grants, donations and bequests received	**17**	**1,781**	**1,930**
TOTAL EQUITY		**12,410**	**(181,148)**
NON-CURRENT LIABILITIES			
Non-current provisions		**76,829**	**68,147**
Long-term employee benefits	**19**	1,003	601
Other provisions	**20**	75,826	67,546
Non-current payables	**9-18**	**95,381**	**68,048**
Bonds and other marketable debt securities		8,069	-
Bank borrowings		85,000	64,911
Other financial liabilities		2,312	3,137
Deferred tax liabilities	**21**	**36,019**	**4,394**
TOTAL NON-CURRENT LIABILITIES		**208,229**	**140,589**
CURRENT LIABILITIES			
Liabilities associated with non-current assets held for sale	**5**	**-**	**20,861**
Current provisions	**20**	**47,852**	**33,745**
Current payables	**9-18**	**1,469**	**255,268**
Bank borrowings		297	253,787
Derivatives	**12**	-	-
Other financial liabilities		1,172	1,481
Current payables to group companies and associates	**9-18-31**	**41,882**	**46,904**
Trade and other payables	**9-18**	**268,105**	**273,071**
Suppliers		124,782	168,062
Suppliers, group companies and associates	**31**	29,049	30,938
Other payables		10,210	10,046
Personnel (salaries payable)		3,205	2,940
Current tax liabilities		1,556	763
Other payables to Public Administrations		3,833	5,386
Advances from customers		95,470	54,936
Prepayments for current assets		**10**	**-**
TOTAL CURRENT LIABILITIES		**359,318**	**629,849**
TOTAL EQUITY AND LIABILITIES		**579,957**	**589,290**

The accompanying notes 1 to 34 are an integral part of these financial statements.

DURO FELGUERA, S.A.

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

	Note	Year ended 31 December 2018	2017
CONTINUING OPERATIONS			
Revenue	**23**	**207,698**	**279,452**
Sales		197,217	263,860
Services rendered		10,481	15,592
Changes in work in progress		**-**	**-**
Own work capitalised		**7**	**320**
Cost of sales	**23**	**(139,515)**	**(195,641)**
Raw materials and other consumables used		(91,514)	(148,086)
Subcontracted work		(48,001)	(47,555)
Other operating income		**94**	**91**
Non-trading and other operating income		94	91
Operating grants released to income during the year	**23**	-	-
Personnel expenses	**23**	**(42,321)**	**(34,120)**
Salaries and wages		(34,146)	(27,979)
Employee benefits expense		(8,175)	(6,141)
Other operating expenses		**(99,092)**	**(111,480)**
External services		(67,839)	(53,307)
Taxes		(752)	(2,172)
Losses, impairment and changes in trade provisions		(30,501)	(56,001)
Amortisation and depreciation	**6-7-8**	**(3,504)**	**(4,045)**
Release of non-financial capital grants and other	**17**	**181**	**127**
Provision surpluses		**-**	**862**
Impairment and gains/(losses) on disposal of fixed assets	**23**	**-**	**(3,736)**
Impairment and losses		-	(3,916)
Gains/(losses) on disposal and other		-	180
Other income/(expense)		**(94)**	**537**
RESULTS FROM OPERATING ACTIVITIES		**(76,546)**	**(67,633)**
Finance income		**222,066**	**14,889**
Finance costs		**(3,990)**	**(5,412)**
Change in fair value of financial instruments		**(10)**	**(36)**
Exchange gains/(losses)		**6,796**	**(18,684)**
Impairment and gains/(losses) on disposal of financial instruments		**(80,767)**	**(119,384)**
NET FINANCE INCOME/(COST)	**24**	**144,095**	**(128,627)**
PROFIT/(LOSS) BEFORE TAX		**67,549**	**(196,260)**
Income tax expense	**22**	**(3,557)**	**(31,262)**
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**63,992**	**(227,522)**
PROFIT/(LOSS) FOR THE YEAR		**63,992**	**(227,522)**

The accompanying notes 1 to 34 are an integral part of these financial statements.

DURO FELGUERA, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017
A) STATEMENT OF TOTAL CHANGES IN EQUITY
(€ thousand)

	Registered capital	Share premium	Reserves	(Own shares and equity holdings)	Prior years' profit and loss	Profit/(loss) for the year	Other equity instruments	Valuation adjustments	Grants, donations and bequests received	TOTAL
BALANCE AT 1 JANUARY 2017	**80,000**	**-**	**162,085**	**(87,719)**	**(81,085)**	**(23,006)**	**-**	**4,686**	**2,025**	**56,986**
Total recognised income and expense	-	-	-	-	-	(227,522)	-	(8,332)	(95)	(235,949)
Transactions with equity holders or owners										
Treasury share transactions	-	-	-	-	-	-	-	-	-	-
- Changes in equity arising from business combinations	-	-	-	-	-	-	-	-	-	-
- Other transactions with equity holders or owners	-	-	-	-	-	-	-	-	-	-
Other changes in equity	-	-	-	-	(23,006)	23,006	-	-	-	-
Other movements	-	-	(2,185)	-	-	-	-	-	-	(2,185)
BALANCE AT 31 DECEMBER 2017	**80,000**	**-**	**159,900**	**(87,719)**	**(104,091)**	**(227,522)**	**-**	**(3,646)**	**1,930**	**(181,148)**
BALANCE AT 1 JANUARY 2018	**80,000**	**-**	**159,900**	**(87,719)**	**(104,091)**	**(227,522)**	**-**	**(3,646)**	**1,930**	**(181,148)**
Total recognised income and expense	-	-	-	-	-	63,992	-	4,343	(136)	68,199
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	-	-	8,093
Transactions with equity holders or owners										
- Treasury share transactions	-	-	-	-	-	-	-	-	-	-
- Other transactions with equity holders or owners	-	-	(197)	-	-	-	-	-	-	(197)
Other changes in equity	-	-	(150,550)	-	(76,972)	227,522	-	-	-	-
Other movements (1)	-	-	(8,236)	-	-	-	-	-	(13)	(8,249)
BALANCE AT 31 DECEMBER 2018	**48,000**	**79,152**	**(8,242)**	**-**	**(181,063)**	**63,992**	**8,093**	**697**	**1,781**	**12,410**

(1) Includes mainly capital increase costs (Note 15).

The accompanying notes 1 to 34 are an integral part of these financial statements.

DURO FELGUERA, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

B) STATEMENT OF RECOGNISED INCOME AND EXPENSE
(€ thousand)

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Profit/(loss) for the year	**15**	**63,992**	**(227,522)**
Income and expense recognised directly in equity			
Available-for-sale financial assets		1,760	(726)
Grants, donations and bequests received	**17**	-	-
Cash flow hedges		(1,052)	3,706
Translation differences		3,813	233
Other income and expense recognised directly in equity		-	-
Tax effect	**21**	(178)	(4,024)
Total income and expense recognised directly in equity		**4,343**	**(811)**
Amounts transferred to the income statement			
Other income and expenses		-	(7,521)
Grants, donations and bequests received	**17**	(181)	(127)
Tax effect	**21**	45	32
Total amounts transferred to the income statement		**(136)**	**(7,616)**
TOTAL RECOGNISED INCOME AND EXPENSE		**68,199**	**(235,949)**

The accompanying notes 1 to 34 are an integral part of these financial statements.

DURO FELGUERA, S.A.

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017
(€ thousand)

	Note	Year ended At 31 December 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES	**25**		
Profit/(loss) for the year before tax		67,549	(196,260)
Profit/(loss) adjustments		(117,890)	173,484
Changes in operating assets and liabilities		(56,322)	37,002
Other cash flows from operating activities		(3,526)	9,478
		(110,189)	**23,704**
CASH FLOWS FROM INVESTING ACTIVITIES	**26**		
Payments for investments		(542)	(5,762)
Proceeds from sale of investments		26,943	180
		26,401	**(5,582)**
CASH FLOWS FROM FINANCING ACTIVITIES	**27**		
Proceeds from and payments for equity instruments		125,712	(16,870)
Proceeds from and payments for financial liability instruments		(24,094)	-
Dividends and interest on other equity instruments paid		(197)	-
		101,421	**(16,870)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**17,633**	**1,252**
Cash and cash equivalents at the beginning of the year	**14**	**58,896**	**65,226**
Profit/(loss) on exchange differences in cash and cash equivalents		2,017	(7,582)
Cash and cash equivalents at the end of the year	**14**	**78,546**	**58,896**

The accompanying notes 1 to 34 are an integral part of these financial statements.

1. General information

Duro Felguera, S.A., parent of the Duro Felguera Group, was incorporated in La Felguera (Asturias) 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 1999 to Grupo Duro Felguera, S.A. and then again on 26 April 2001 to its current name. The Company's registered office and headquarters are located in Parque Científico Tecnológico, calle Ada Byron 90, Gijón.

The Company engages in the construction, manufacture and assembly in the metal, boiler-making, smelting and capital goods industries under turnkey contracts, and the provision of marketing, distribution, construction and installation services involving energy from solid and liquid fuels. It also engages in the promotion and creation of industrial, commercial and service companies, and their extension, development and modernisation in Spain and abroad, within the activities that make up its corporate objects, as well as the acquisition, holding and utilisation of fixed and variable interest securities in all kinds of companies and entities.

The Company mainly provides services in Spain, other countries in the euro area, and Latin America.

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.

The Company's main shareholders (Note 15) share control.

Key events in 2018

On 27 July 2018, the 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.

- 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 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 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 24), 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. 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 Company 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.

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, in the Company and other subsidiaries, affecting the value of the portfolio.

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 20).

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.

As explained in Note 33, on 1 March 2019, the Duro Felguera Australia subsidiary was notified of the ruling handed down by the Singapore International Arbitration Centre regarding the arbitration between the Company 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. Basis of presentation

2.1 True and fair view

The financial statements have been prepared based on the Company's accounting records and presented in accordance with prevailing commercial law and the Spanish General Accounting Plan (*Plan General Contable)* approved by Royal Decree 1514/2007, as amended by Royal Decree 1159/2010, to present fairly the Company's equity, financial position and results, and to accurately reflect the cash flows included in the statement of cash flows.

The Company's financial statements for 2017 were approved at the Annual General Meeting held on 15 June 2018.

The accompanying financial statements 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.

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

2.2 Accounting policies

The accompanying financial statements have been prepared using the generally accepted accounting principles and measurement bases described in Note 3. All mandatory accounting standards that could have a significant effect on the financial statements were applied.

Going concern assumption

At 31 December 2018, the Company's equity amounted to €12,410 thousand (2017: negative €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 Company's equity of €340,505 thousand, impairment on certain assets, the lower margin on certain projects, and the impossibility of lodging the related claims in accordance with prevailing accounting regulations resulted in operating losses of €76,546 thousand and the recognition of portfolio provisions for losses of subsidiaries for €80,767 thousand, leaving the 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 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 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).

The Company 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 financial statements because they did not meet the requirements of prevailing accounting regulations due to uncertainty at the reporting date. Success in the ongoing negotiations and claims in 2019 would have a positive impact on the Company's equity.

The balance of cash and cash equivalents at 31 December 2018, at consolidated level, was €103 million, with net financial debt of €3 million and a debt ratio of 29%. The Company is also in conversations with financial institutions and customers to find new sources of financing (Note 4.1 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 Company is taking all the necessary measures and actions to comply with the milestones described previously. Therefore, the directors have prepared the financial statements on a going concern basis, considering the favourable outlook for delivering its cash forecasts and the actions undertaken to restore equity.

2.3 Comparative information

In accordance with company law, for comparative purposes the Company included, in addition to the figures for 2018 for each item of the balance sheet, the income statement, the statement of changes in equity and the statement of cash flows, those of the previous year.

Quantitative information for the previous year is also included in the notes to the financial statements unless an accounting standard specifically states that this is not required.

2.4 Aggregation of items

For an easier understanding of the balance sheet and income statement, certain items have been aggregated with other items, with the required disclosures presented in the corresponding notes.

2.5 Consolidated financial statements

The Company is the parent of a group of companies in accordance with Royal decree 1159/2010 and, therefore, is required to present consolidated financial statements.

For reasons of clarity, the directors have elected to present the consolidated financial statements separately. The consolidated financial statements were authorised for issue on 29 March 2019 and will be placed on file with the Oviedo Companies Register.

2.6 Accounting estimates and judgements

The preparation of the financial statements 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 Company are addressed below.

a) Warranty claims

The Company 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) Litigation

The Company 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.

c) Income tax and deferred tax assets

The Company 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 22), this would result in an increase/decrease of €383 thousand in the income tax liability (2017: €3,126 thousand).

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

The Company's 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 Company 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.

e) Receivables and financial assets

The Company 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 Company 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.

f) Revenue recognition

The Company 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 Company 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 Company 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 provisions for delays or other reasons, and occasionally discounts, which vary from contract to contract. At 31 December 2018 the Company recorded a provision for penalties of €2,449 thousand (2017: €2,449 thousand).

The Duro Felguera Argentina subsidiary 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%, pursuant to the contract terms. The total amount of claims submitted at the closing rate was €76 million (ARP 3,302 million), filing an arbitration with the customer.

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.

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

g) Investment portfolio

The Company analyses the recoverability of certain shareholdings in Group companies taking the recoverable amounts of those companies based on value-in-use calculations (Note 10).

3. Accounting policies

3.1. Intangible assets

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 expensed as incurred. Costs related directly with the production of separate and identifiable computer software controlled by the Company when it is probable that the software will generate economic benefits above costs over a period of more than one year are recognised as intangible assets.

3.2. Property, plant and equipment

Elements of property, plant and equipment are measured at the purchase price or production costs, less accumulated depreciation and any accumulated impairment losses recognised.

Costs incurred to renovate, enlarge or improve items of property, plant and equipment which increase capacity or productivity or extend the useful life of the asset are capitalised as part of the cost of the related asset, provided that the carrying amount of the items that are replaced and derecognised is known or can be estimated.

Costs for major repairs are capitalised and amortised over the estimated useful life of the assets, while recurring maintenance costs are recognised in the income statement for the period in which they are incurred.

Property, plant and equipment, excluding land, are depreciated on a systematic basis over the estimated useful life of the assets, taking into account the impairment normally incurred due to operational wear and tear. The estimated useful lives are as follows:

	Years of estimated useful life
Buildings	7 to 50
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.

When the carrying amount of an asset exceeds its recoverable amount, the amount of the asset is immediately written down to its recoverable amount (Note 3.4).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and are recognised in the income statement.

3.3. Investment properties

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

Items under this heading are stated at acquisition cost less accumulated depreciation and any impairment losses.

Investment property is depreciated on a straight-line basis over the estimated useful lives of the properties (7 to 66 years).

3.4. Impairment of non-financial assets

Assets that have an indefinite useful life or assets not subject to amortisation and are tested annually for impairment. Assets that are subject to 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 is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment losses, assets are grouped together at the lowest levels for which there are largely independent cash inflows (cash-generating units).

Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

3.5. Financial assets

The Company classifies its financial assets in the following categories: loans and receivables, held-to-maturity investments, equity investments in Group companies, jointly controlled entities and associates, and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and reviews the classification at each reporting date.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables are included under "Loans to companies" and "Trade and other receivables" in the balance sheet (Note 11).

Financial assets in this category are initially measured at fair value, including directly attributable transaction costs. They are subsequently measured at amortised cost. Accrued interest is recognised at the effective interest rate, which is the discount rate that equates the carrying amount of the financial instrument to the present value of all the estimated cash flows until its maturity. Nonetheless, trade receivables falling due within one year are measured both initially and subsequently at their nominal amount, provided that the effect of not discounting the cash flows is not material.

At least at the end of the reporting period, the Company recognises any necessary impairment loss when there is objective evidence that all the amounts receivable will not be received.

The amount of the impairment loss is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate calculated upon initial recognition. Impairments, and reversals thereof, are recognised in the income statement.

b) Held-to-maturity investments

Held-to-maturity investments include debt securities with fixed maturity and fixed or determinable payments traded in an active market, which the Company's management has the intention and ability to hold to maturity. If the Company has sold more than an insignificant amount of held-to-maturity investments before maturity, the entire category is reclassified as available-for-sale. Held-to-maturity investments are included in current assets, except for maturities exceeding 12 months from the reporting date, in which case they are included in non-current assets.

c) Equity investments in group companies, jointly controlled entities and associates

These investments are carried at cost less accumulated amortisation and any accumulated impairment. When an investment is newly classified as an investment in a group company, jointly controlled entity or associate, the cost is deemed to be the investment's recognised carrying amount immediately prior to the company being classified as such. Where applicable, prior valuation adjustments related to the investment recognised directly in equity remain in equity until the investment is either sold or impaired.

The impairment loss is measured as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the present value of future cash flows from the investment. When estimating impairment, the investee's equity is taken into consideration, corrected for any unrealised gains existing at the measurement date, unless better evidence of the recoverable amount of the investment is available. Impairments, and reversals thereof, are recognised in the income statement for the reporting period in which they occur.

d) Financial assets at fair value through profit or loss:

This category has two sub-categories: financial assets held for trading and financial assets designated at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the near term or if designated at fair value through profit or loss by management. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are held for trading or expected to be settled within 12 months of the reporting date, otherwise they are classified as non-current.

These assets are measured both initially and subsequently at fair value, with any changes in fair value recognised in profit or loss for the year. Directly attributable transactions costs are recognised in profit or loss for the reporting period.

e) Available-for-sale financial assets

This category includes debt securities and equity instruments not classified in any of the above categories. They are included in non-current assets unless management intends to dispose of them within 12 months of the end of the reporting period.

Available-for-sale financial assets are measured at fair value, with any changes in fair value recognised directly in equity until the asset is disposed or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement, provided fair value can be measured reliably. Otherwise, they are recognised at cost less impairment losses.

For available-for-sale financial assets, impairment is recognised when there is objective evidence that the value of the asset is impaired as a result of a reduction or delay in estimated future cash flows from acquired debt instruments, or failure to recover the carrying amount of investments in equity instruments. The impairment for these financial assets is the difference between the cost or amortised cost, less any impairment previously recognised in the income statement, and the fair value at the measurement date. Impairment of equity instruments which are carried at cost because the fair value cannot be measured reliably shall be calculated in the same way as for equity investments in group companies, jointly controlled entities and associates.

Where there is objective evidence that the asset is impaired, the Company records the accumulated losses recognised in equity for a decrease in fair value in the income statement. Impairment losses recognised in the income statement for equity instruments are not reversed through the income statement.

The fair values of quoted investments are based on current purchase prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes the fair value using valuation techniques. These include the use of recent arm's length transactions between knowledgeable, willing parties, reference to other instruments that are substantially the same, the use of discounted cash flow analysis, and option pricing models, maximising the use of observable market data and relying as little as possible on Company-specific considerations.

f) Financial assets from guarantees enforced

The Company considers that the guarantees enforced 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 Company'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 Company, 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 Company takes the amount of guarantees enforced in its assessment of the recoverability of receivables. Where the Company estimates an adverse outcome of a lawsuit, it recognises the related provision. The guarantees enforced are indicated in Note 28.

3.6. Inventories

Inventories of work in progress relate to the costs incurred by the Company with respect to works/services that are currently being executed and whose revenue has yet to be received. They are stated at the acquisition price or production cost. Management does not consider there to be any risk in invoicing such costs incurred to customers because they relate to the performance of a service that has already been rendered to the customer under the relevant contract/order.

3.7. Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value and subsequently re-measured at 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 type of hedge. The Company designates certain derivatives as:

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 temporarily in equity and taken to the income statement in the reporting period or periods in which the forecast hedge transaction affects profit or loss, except where the hedge relates to a forecast transaction that requires recognition of a non-financial asset or liability. In this case, the amounts recognised in equity are included in the cost of the asset or liability when it is acquired or assumed.

The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

For derivatives not qualifying for hedge accounting, any gains or losses in fair value are recognised immediately in the income statement (Note 4.4).

3.8. 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.

3.9. Equity

Share capital is represented by ordinary shares.

The costs of issuing new shares or options are taken directly to equity as a reduction in reserves.

For purchases of treasury shares of the Company, the consideration paid, including any directly attributable incremental costs, is deducted from equity until the shares are canceled, reissued or sold. Where these shares are sold or subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity.

3.10. Financial liabilities

Debts and payables

This category includes trade payables and non-trade payables. These liabilities are classified as current liabilities, unless the Company has an unconditional right to defer settlement for at least 12 months after the reporting date.

Debts and payables are initially measured at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method. The effective interest rate is the rate that equates the carrying amount of the financial liability to the expected cash flows payable until maturity of the liability.

Nonetheless, trade payables falling due within one year for which there is no contractual interest rate are measured both initially and subsequently at their nominal amount, provided that the effect of not discounting the cash flows is immaterial.

3.11. Grants received

Repayable grants, donations and bequests are recognised as liabilities until they meet the criteria for classification as non-refundable. Non-refundable grants are accounted for as income directly in equity and allocated to the income statement on a systematic and rational basis as the expenses related with the grant.

For these purposes, grants are considered non-refundable when they have been awarded through an individual agreement, all the attaching conditions have been met and their receipt is reasonably assured.

Monetary grants are measured at the recognition-date fair value of the consideration awarded, and non-monetary grants at the recognition-date fair value of the item received.

Grants awarded to acquire intangible assets, property, plant and equipment and investment property are recognised as income for the reporting period in proportion with the amortisation or depreciation charges for those assets in that period or when the assets are disposed of, impaired or derecognised. Those awarded to finance specific expenses are recognised as income in the reporting period in which the financed expenses are accrued and those awarded to offset operating losses are recognised as income for the reporting period in which they are awarded, except those earmarked to finance operating losses for future periods, in which case they are recognised as income in those periods.

The Company recognises the amount of the discounting of loans granted mainly by the Ministry of Education and Science, which do not bear any interest (Note 18), under this line item.

3.12. Current and deferred income tax

Tax expense (tax income) for the period comprises current tax expense (income) and deferred tax expense (income).

Both current and deferred tax expense (income) are accounted for in profit and loss. However, the tax effect of items recognised directly in equity is recognised in equity.

Current tax assets or liabilities are measured at the amount expected to be paid or recovered from the taxation authorities, using the tax legislation in force or approved and pending publication at the reporting date.

Deferred taxes are calculated using the liability method on temporary differences between the tax bases of the assets and liabilities and their carrying amounts. However, deferred taxes arising on the initial recognition of an asset or liability in a transaction that is not a business combination and affected neither accounting profit nor taxable income are not recognised. Deferred taxes are measured based on tax legislation in force or approved and pending publication at the reporting date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

The Company pays corporate income tax under the corporate group taxation system together with the companies making up the Group. Under this scheme, the taxable amount is calculated on the basis of the Group's consolidated results.

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.

3.13. Provisions for liabilities and charges and other trade provisions

Provisions for post-sale costs, restructuring costs and litigation are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be estimated reliably. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the amounts required to settle the obligation using a pre-tax discount rate that reflects the market assessments of the time value of money and the risks specific to the obligation. Adjustments arising from the discounting of the provision are recognised as a finance expense when accrued.

Provisions expiring within one year are not discounted where the financial effect is not material.

When part of the payment required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset, provided that there is virtually no doubt as to its collection.

Contingent liabilities are possible obligations arising from past events, and whose existence will be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Company. Contingent liabilities are not recognised, but disclosed in the notes (Note 28).

3.14. Employee benefits

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

The Collective Labour Agreement covering the Company 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 Company 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 2000 P and a technical interest rate of 1.28% p.a. (2017: 1.24% p.a.).

b) Coal vouchers

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

Annual coal allowances are calculated based on actuarial studies prepared by an independent actuary and include the following assumptions: mortality tables PERM/F 2000P, technical interest rate of 1.28% p.a. (2017: 1.24%) and consumer prices indices reflecting an increase of 1% p.a. (2017: 1%).

c) Profit-sharing and bonus plans

The Company 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 Company recognises a provision where contractually obligated or where there is a past practice that has created a constructive obligation.

d) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to terminate the employment of employees according to a detailed formal plan without any possibility of withdrawal or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

3.15. Share-based payments

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

The Company 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 Company 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.

3.16. Joint ventures

The Company recognises its share of jointly controlled assets and its proportional share of liabilities incurred jointly, as well as assets used in jointly controlled operations and liabilities incurred in respect of joint ventures.

It recognises in the income statement its share of income earned and expenses incurred by the joint venture, as well as expenses relating to its interest in the joint venture.

Any unrealised gains and losses on reciprocal transactions, as well as reciprocal assets, liabilities, income, expenses and cash flows, are eliminated.

a) Accounting of joint ventures

Certain work is completed through the grouping of two or more companies as a temporary joint venture. At the year-end, the Company had interests in several temporary joint ventures (Note 29), the balances of which are included in the Company's accounting records in proportion to its share in them, in accordance with generally accepted accounting principles.

To recognise the profit/(loss) on the work carried out through the temporary joint ventures with other companies, the Company applies the same criteria it applies to its own work, as explained in the section on revenue recognition.

b) Integration of branches

The financial statements of the Company's branches in Mexico, Italy, Venezuela, Egypt, India, Algeria, Bielorrusia, Mauritania, Peru, Canada, Romania and Dubai, named Duro Felguera S.A., Sucursal México, Duro Felguera, S.A., Stabile Organizazione in Italia, Felguera Parques y Minas Sucursal Venezuela, Duro Felguera Plantas Industriales, S.A., Sucursal Egipto, Felguera Grúas Sucursal India, Duro Felguera S.A., Sucursal Argelia, Duro Felguera S.A., Sucursal Bielorrusia, Duro Felguera S.A., Sucursal Mauritania, Duro Felguera S.A., Sucursal Perú, Duro Felguera, S.A., Sucursal Canadá, Duro Felguera S.A. Gijón Spania Sucursala Bucuresti and Duro Felguera Gulf Contracting LLC, have been included in accordance with prevailing legislation, integrating all their balances and transactions.

3.17. Revenue recognition

Revenue is measured at the fair value of the considered received and represents balances receivable for goods delivered and services rendered in the ordinary course of the Company's business, less returns, rebates, discounts and VAT.

The Company recognises revenue when the amount can be measured reliably, it is probable that the economic benefits will flow to the Company and the specific conditions for each activity as described below are met. The amount of revenue cannot be measured reliably until all contingencies related to the sale are resolved. The Company bases its estimated on past results taking into consideration the type of customer, the type of transaction and the specific terms of each arrangement.

a) Rendering of services

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.

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.

The Company recognises revenue from turnkey engineering contracts based on the estimated outcome 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 Company 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 re excluded from contract costs in determining the stage of completion.

The Company 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 11).

The Company 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.

b) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to 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 effective interest method.

c) Dividend income

Dividend income is recognised as income in the income statement when the right to receive payment is established. However, if distributed dividends are derived from profits generated prior to the acquisition date, they are not recognised as income, reducing the carrying amount of the investment.

3.18. Leases

a) When the Company is lessee – Finance lease

The Company leases certain items of property, plant and equipment. Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Fair value is calculated based on the interest rate implicit in the lease. Where this cannot be determined, the Company's interest rate for similar transactions is used.

Each lease payment is allocated between the liability and finance charges. The total finance charge is allocated over the lease term and recognised in profit and loss for the reporting period in which it is accrued, using the effective interest rate method. Contingent rents are expensed in the reporting period in which they are accrued. The corresponding lease obligations, net of finance charges, are included in "Finance lease payables". The assets acquired under a finance lease are depreciated over their useful life.

b) When the Company is lessee – Operating lease

Leases where the lessor retains substantially all the risks and benefits incidental to ownership of the leased item are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are taken to the income statement in the reporting period in which they are accrued on a straight-line basis over the lease term.

c) When the Company is lessor

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income is recognised on a straight-line basis over the lease term.

3.19. Foreign currency translation

a) Functional and presentation currency

The financial statements are presented in euros, which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. 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.

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 equity.

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

To determine the existence of hyperinflation, the Group assesses the qualitative characteristics of the economic environment of the country, as well as the trends in inflation rates over the previous three years. The financial statements of companies whose functional currency is the currency of a hyperinflationary economy are restated to reflect changes in purchasing power of the local currency, such that all items of the statement of financial position 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 3.19 c), 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

3.20. Related party transactions

In general, transactions between Group companies are accounted for initially at fair value. Where the agreed-upon price differs from fair value, the difference is recognised taking into account the economic substance of the transaction. The transactions are subsequently measured in accordance with the related standards.

4. Financial risk management

4.1 Financial risk factors

a) Market risk

(i) Foreign currency risk

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

To manage the foreign currency risk arising from future commercial transactions and recognised assets and liabilities, the Company uses 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 €4,657 thousand higher (2017: €7,557 thousand higher), whereas if it had strengthened by 5%, post-profit for the year would have been €4,213 thousand lower (2017: €6,837 thousand lower), mainly as a result of foreign exchange gains/losses on translation to USD of trade and other receivables, cash, suppliers and customer prepayments, 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.

(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 Company includes a scaled price review in contracts of this kind pegged to consumer price indices, as in the case of its contract in Venezuela. Since the commencement of the projects to 31 December 2018, income from the projects in question have risen by €98 million (2017: €98 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.

(iii) Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets, income and cash flows from the Company’s operating activities are substantially independent of changes in market interest rates.

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

The Company 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 Company 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 an increase/decrease of €85 thousand (2017: +/- €257 thousand).

b) Credit risk

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

- Assets arising from derivative financial instruments (Note 12) and sundry balances included in cash and cash equivalents (Note 14).
- Balances related to trade and other receivables (Note 11).

Derivative financial instruments and transactions with financial institutions included in cash and cash equivalents are arranged with renowned financial institutions. The Company 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 Company's most important projects. The counterparties are mostly state or multinational corporations, operating primarily in the energy and mining industries.

Our main customers represent 84% of "Trade and other receivables" at 31 December 2018 (2017: 60%), relating to operations with the type of institutions indicated above. Accordingly, the Company 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 €29,591 thousand (2017: €38,871 thousand) (Note 11).

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 2 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 5) 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 (Note 5).

To execute its projects, the Company is in talks with customers and financial institutions to secure additional liquidity of €60 million through advances from the customers or cash injections. The cash flow 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:

	2018	2017
Borrowings and derivatives (Notes 5, 12 and 18)	(96,850)	(343,125)
Less: Cash and cash equivalents (Note 14)	78,546	58,896
Net financial debt	(18,304)	(284,229)
Undrawn credit lines (Note 18)	-	156
Total liquidity reserves	**(18,304)**	**(284,073)**

4.2 Capital risk management

The Company's objectives with 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 Company 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 Company 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 balance sheet, less cash and cash equivalents. Total capital is calculated as equity, as shown in the financial statements, plus net debt.

The Company's strategy is to maintain a gearing ratio of less than one. The gearing ratios at 31 December 2018 and 2017 were as follows:

	€ thousand	
	2018	**2017**
Borrowings and derivatives (Notes 5, 12 and 18)	(96,850)	(343,125)
Less: Cash and cash equivalents	78,546	58,896
Net financial debt	(18,304)	(284,229)
Equity	12,410	(181,148)
% financial debt and derivatives/equity	**780.42%**	**(189.42%)**
% net cash position/equity	**147.49%**	**(156.90%)**

As explained in Note 18, the Company is subject to compliance with the following debt ratio (gross financial debt/EBITDA) as from the year ended 31 December 2018:

(€ thousand)

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

4.3 Fair value estimation

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

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

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

4.4 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 Company designates certain derivatives as:

(i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
(ii) hedges of forecast transactions (cash flow hedge); or
(iii) hedges of a net investment in a foreign operation.

The Company 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 Company 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 equity. 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 inventories) or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

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. However, if a transaction is no longer considered probable, the gains or losses accumulated in equity are transferred immediately to 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.

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.

5. Assets and liabilities classified as held for sale

Breakdown of non-current assets held for sale:

	€ thousand	
	2018	**2017**
Property, plant and equipment	-	27,395
Net carrying amount	**-**	**27,395**

There were no assets classified as held for sale at 31 December 2018. 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.

6. Intangible assets

The movements in the items composing "Intangible assets" are as follows:

	€ thousand		
	Computer software	**Other assets in progress**	**Total**
Balance at 1 January 2017	**14,934**	**146**	**15,080**
Cost	19,665	146	19,811
Accumulated amortisation	(4,731)	-	(4,731)
Carrying amount	**14,934**	**146**	**15,080**
Additions	51	315	366
Other movements	232	(232)	-
Disposals	-	-	-
Amortisation	(2,300)	-	(2,300)
Balance at 31 December 2017	**12,917**	**229**	**13,146**
Cost	19,948	229	20,177
Accumulated amortisation	(7,031)	-	(7,031)
Carrying amount	**12,917**	**229**	**13,146**
Balance at 1 January 2018	**12,917**	**229**	**13,146**
Cost	19,948	229	20,177
Accumulated amortisation	(7,031)	-	(7,031)
Carrying amount	**12,917**	**229**	**13,146**
Additions	1	6	7
Other movements	-	-	-
Amortisation	(2,277)	-	(2,277)
Other amortisation movements	(78)	-	(78)
Balance at 31 December 2018	**10,563**	**235**	**10,798**
Cost	19,949	235	20,184
Accumulated amortisation	(9,386)	-	(9,386)
Carrying amount	**10,563**	**235**	**10,798**

a) Fully amortised intangible assets

At 31 December 2018, there were fully amortised intangible assets still in use with an accounting cost of €3,272 thousand (2017: €2,889 thousand).

b) Intangible assets in progress

Costs incurred to develop the new IT system are recognised under “Other assets in progress”.

7. Property, plant and equipment

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

	€ thousand					
	Land and buildings	**Technical installations and machinery**	**Other installations, equipment and furniture**	**Other property, plant, and equipment**	**Construction in progress and advances**	**Total**
Balance at 1 January 2017	**45,851**	**943**	**2,706**	**892**	**-**	**50,392**
Cost	48,452	1,473	6,339	5,544	-	61,808
Accumulated depreciation	(2,601)	(530)	(3,633)	(4,652)	-	(11,416)
Carrying amount	**45,851**	**943**	**2,706**	**892**	**-**	**50,392**
Additions	-	-	20	28	-	48
Disposals	-	(1,354)	(49)	(20)	-	(1,423)
Transfers	(32,263)	-	(3)	(33)	-	(32,299)
Depreciation	(686)	(46)	(334)	(425)	-	(1,491)
Disposals	-	479	43	8	-	530
Other depreciation movements	935	-	(14)	59	-	980
Balance at 31 December 2017	**13,837**	**22**	**2,369**	**509**	**-**	**16,737**
Cost	16,189	119	6,307	5,519	-	28,134
Accumulated depreciation	(2,352)	(97)	(3,938)	(5,010)	-	(11,397)
Carrying amount	**13,837**	**22**	**2,369**	**509**	**-**	**16,737**
Balance at 1 January 2018	**13,837**	**22**	**2,369**	**509**	**-**	**16,737**
Cost	16,189	119	6,307	5,519		28,134
Accumulated depreciation	(2,352)	(97)	(3,938)	(5,010)	-	(11,397)
Carrying amount	**13,837**	**22**	**2,369**	**509**	**-**	**16,737**
Additions	-	266	51	225	-	542
Disposals	-	-	-	(1)	-	(1)
Transfers	-	-	2	8	-	10
Depreciation	(297)	(29)	(341)	(332)	-	(999)
Disposals	-	-	-	1	-	1
Other depreciation movements	-	-	(23)	(29)	-	(52)
Balance at 31 December 2018	**13,540**	**259**	**2,058**	**381**	**-**	**16,238**
Cost	16,189	385	6,360	5,751	-	28,685
Accumulated depreciation	(2,649)	(126)	(4,302)	(5,370)	-	(12,447)
Carrying amount	**13,540**	**259**	**2,058**	**381**	**-**	**16,238**

a) Additions and transfers

In 2017, under the scope of the non-core asset disposal plan and having complied with the requirements in prevailing accounting regulations, the Vía de los Poblados office building in Madrid acquired on 29 May 2014 for a net carrying amount of €31,328 thousand was reclassified to non-current assets held for sale (Note 5).

b) Impairment losses

There were no significant impairment losses or reversals thereof for any assets in 2018 or 2017.

c) Subsidised assets

The net carrying amount of subsidised assets at 31 December was €13,405 thousand (2017: €13,695 thousand).

d) Fully depreciated assets

At 31 December 2018, there were fully depreciated buildings with an original cost of €294 thousand (2017: €266 thousand) still in use. The cost of the rest of the fully depreciated items of property, plant and equipment still in use amounted to €5,586 thousand (2017: €4,359 thousand).

e) Assets held under operating lease

The income statement included under “Operating expenses” operating lease expenses amounting to €3,860 thousand (2017: €1,201 thousand).

f) Insurance

The Company 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.

g) Assets subject to guarantees

At 31 December 2018, there were items of property, plant and equipment amounting to €311 thousand in guarantee to the taxation authorities arising from agreements for settlement of VAT, personal income tax and income tax-related party transactions (Note 22).

8. Investment properties

	€ thousand	
	2018	**2017**
Land	8,618	8,618
Buildings	5,034	5,262
	13,652	**13,880**

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

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

	€ thousand		
	Land	**Buildings**	**Total**
Balance at 1 January 2017	**9,279**	**7,547**	**16,826**
Cost	9,755	12,058	21,813
Accumulated depreciation	-	(4,511)	(4,511)
Depreciation	(476)	-	(476)
Carrying amount	**9,279**	**7,547**	**16,826**
Transfers	(657)	(2,629)	(3,286)
Disposals	(4)	-	(4)
Depreciation	-	(254)	(254)
Other depreciation movements	-	598	598
Balance at 31 December 2017	**8,618**	**5,262**	**13,880**
Cost	9,094	9,429	18,523
Accumulated depreciation	-	(4,167)	(4,167)
Depreciation	(476)	-	(476)
Carrying amount	**8,618**	**5,262**	**13,880**
Balance at 1 January 2018	**8,618**	**5,262**	**13,880**
Cost	9,094	9,429	18,523
Accumulated depreciation	-	(4,167)	(4,167)
Depreciation	(476)	-	(476)
Carrying amount	**8,618**	**5,262**	**13,880**
Transfers	-	-	-
Disposals	-	-	-
Depreciation	-	(228)	(228)
Other depreciation movements	-	-	-
Balance at 31 December 2018	**8,618**	**5,034**	**13,652**
Cost	9,094	9,429	18,523
Accumulated depreciation		(4,395)	(4,395)
Depreciation	(476)	-	(476)
Carrying amount	**8,618**	**5,034**	**13,652**

In 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 Las Rozas Madrid) was reclassified to non-current assets held for sale for a net carrying amount of €2,688 thousand (Note 5).

The main investment properties relate to land located mostly in Langreo, Oviedo, Gijón (Asturias) and Madrid, of which €0.4 million (2017: €0.4 million) correspond to plots zoned as rural estates located in various areas of the Langreo municipality. The rest of the investments relate to buildings in La Felguera amounting to €2 million (2017: €2 million), Oviedo amounting to €8 million (2017: €8.1 million), and Gijón amounting to €3.2 million (2017: €3.3 million).

At year-end 2018, the fair value of the investments were appraised by an independent, expert valuer at €23,907 thousand (2017: €24,749 thousand).

a) Assets held under finance lease:

Investment properties include the following amounts where the Company is a lessee under a finance lease:

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

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 18).

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

b) Assets held under operating lease:

"Land and buildings" includes buildings leased by the Company to third parties under an operating lease, with the following carrying amount:

	€ thousand	
	2018	2017
Cost-capitalised operating leases	5,215	5,215
Accumulated depreciation	(933)	(845)
Depreciation for the year	(88)	(88)
Carrying amount	**4,194**	**4,282**

The contract provides for a grace period of three years.

c) Insurance

The Company has taken out insurance policies to cover the risk of damage to its investment properties. The coverage of these policies is considered sufficient.

d) Assets subject to guarantees

At 31 December 2018, there were items amounting to €7,745 thousand in guarantee to the taxation authorities for debts arising from the agreements to settle VAT, personal income tax and income tax-related party transactions (Note 22).

9. Analysis of financial instruments

9.1 Analysis by category

The carrying amount of each category of financial instruments established in the recognition and measurement standard for "financial instruments," except for equity investments in group companies, jointly controlled entities and associates (Note 10), is as follows:

	€ thousand					
	Non-current financial assets					
	Equity instruments		Credits and other		TOTAL	
	2018	2017	2018	2017	2018	2017
Loans and receivables (Note 11)	-	-	568	102	568	102
Available-for-sale financial assets at fair value	4,445	5,480	-	-	4,445	5,480
	4,445	**5,480**	**568**	**102**	**5,013**	**5,582**

	€ thousand					
	Current financial assets					
	Equity instruments		Loans, derivatives and other financial assets		TOTAL	
	2018	2017	2018	2017	2018	2017
Loans and receivables (Note 11)	-	-	354,324	367,578	354,324	367,578
Derivatives	-	-	-	1,052	-	1,052
Cash and cash equivalents (Note 14)	-	-	78,546	58,896	78,546	58,896
	-	**-**	**432,870**	**427,526**	**432,870**	**427,526**

Loans and receivables do not include balances with Public Administrations.

Available-for-sale financial assets include mainly the stake in Ausenco, Ltd for €4,380 thousand (2017: €5,205 thousand) over which the Company 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).

	€ thousand							
	Non-current financial liabilities							
	Bonds and other marketable debt securities		Bank borrowings		Derivatives and other		TOTAL	
	2018	2017	2018	2017	2018	2017	2018	2017
Debts and payables (Note 18)	8,069	-	85,000	64,911	2,312	3,137	95,381	68,048
Derivatives (Note 12)	-	-	-	-	-	-	-	-
	8,069	**-**	**85,000**	**64,911**	**2,312**	**3,137**	**95,381**	**68,048**

	€ thousand					
	Current financial liabilities					
	Bank borrowings		Derivatives and other		TOTAL	
	2018	2017	2018	2017	2018	2017
Debts and payables (Notes 5 and 18)	297	274,648	305,770	315,307	306,067	589,955
Derivatives (Note 12)	-	-	-	-	-	-
	297	**274,648**	**305,770**	**315,307**	**306,067**	**589,955**

Debts and payables do not include balances with Public Administrations.

9.2 Analysis by maturity

The non-current amounts of financial instruments with a fixed or determinable maturity by year of maturity are as follows:

2018	€ thousand					
	Financial assets					
	2019	2020	2021	2022	Subsequent years	Total
Loans and receivables (Note 11)	354,324	565	3	-	-	354,892
Derivatives (Note 12)	-	-	-	-	-	-
Cash and cash equivalents (Note 14)	78,546	-	-	-	-	78,546
	432,870	**565**	**3**	**-**	**-**	**433,438**

2017	€ thousand					
	Financial assets					
	2018	2019	2020	2021	Subsequent years	Total
Loans and receivables (Note 11)	367,578	74	25	3	-	367,680
Derivatives (Note 12)	1,052	-	-	-	-	1,052
Cash and cash equivalents (Note 14)	58,896	-	-	-	-	58,896
	427,526	**74**	**25**	**3**	**-**	**427,628**

2018	€ thousand					
	Financial liabilities					
	2019	2020	2021	2022	Subsequent years	Total
Bonds and other marketable debt securities	-	-	-	-	8,069	8,069
Bank borrowings (Note 18)	297	-	15,000	20,000	50,000	85,297
Other financial liabilities (Note 18)	305,770	968	844	500	-	308,082
	306,067	**968**	**15,844**	**20,500**	**58,069**	**401,448**

In 2017 Finance lease payables included the financial debt related to assets classified as held for sale amounting to €20,861 thousand (Note 5).

2017	€ thousand					
	Financial liabilities					
	2018	2019	2020	2021	Subsequent years	Total
Finance lease payables (Notes 5 and 18)	22,386	-	-	-	-	22,386
Bank borrowings (Note 18)	252,262	64,911	-	-	-	317,173
Other financial liabilities (Note 18)	315,307	869	902	848	518	318,444
	589,955	**65,780**	**902**	**848**	**518**	**658,003**

9.3 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.

When the decision is taken to request an external credit rating of a customer, the Company's general policy is to request the rating from Standard & Poor’s, Moody’s or Fitch Ratings.

Most of the Company's financial assets relate to customers that have never defaulted.

10. Investments in group companies, jointly controlled entities and associates

Investments in group companies and associates

The movement in investments in the year in group companies and associates is as follows:

2018	Opening balance	Additions and allowances	Transfers	Disposals	Closing balance
	€ thousand				
Investments in group companies					
Investments in group companies	171,149	27,575		(46,706)	152,018
Impairment of investments in group companies	(106,494)	(61,029)		46,685	(120,838)
	64,655				31,180
Investments in associates					
Investments in associates	155	-	-	(100)	55
Uncalled capital on investments in associates	(4)	-	-	-	(4)
Impairment of investments in associates	(134)	-	-	100	(34)
	17				17
	64,672				**31,197**

2017	Opening balance	Additions and allowances	Transfers	Disposals	Closing balance
	€ thousand				
Investments in group companies					
Investments in group companies	166,225	5,348	-	(424)	171,149
Impairment of investments in group companies	(56,156)	(50,762)	-	424	(106,494)
	110,069				64,655
Investments in associates					
Investments in associates	2,780	-	(2,625)	-	155
Uncalled capital on investments in associates	(4)	-	-	-	(4)
Impairment of investments in associates	(1,298)	(1,251)	2,415	-	(134)
	1,478				17
	111,547				**64,672**

Additions of investments in group companies in 2018 related to capital contributions to Felguera Gruas India, Pvt and equity holder contributions to offset losses at DF Mompresa, S.A., Felguera IHI, S.A., and Duro Felguera Oíl&Gas, S.A. In 2017, they related mainly to capital contributions to Felguera Gruas India, Pvt and equity holder contributions to offset losses at Núcleo de Comunicaciones y Control, S.L.

Disposals in 2018 related to the sales of MDF Tecnogás, S.L. and Eólica del Principado, S.A.. Disposals in 2017 related to the liquidation of Duro Felguera UK Ltd. and Eolian Park Management, S.A.

Also in 2018, under the scope of the non-core asset disposal plan announced by the Company, 100% of subsidiary Núcleo de Comunicaciones y Control, S.L. and 80% of subsidiary Duro Felguera Rail, S.A. (held through the Duro Felguera Investment, S.A.U subsidiary) were sold. These disposals had a negative impact of €8.3 million, which was recognised in these financial statements, and resulted mainly in a cash inflow of €13.6 million.

The most significant impairments of investments in 2018 related to Felguera Gruas India Private Limited, for €20,935 thousand, DF Mompresa, S.A., for €13,366 thousand, and Duro Felguera Investment, S.A., for €14,092 thousand.

(€ thousand)

The following table presents information on group companies and associates:

2018

Name and legal structure	Activity and location	% shareholding Direct, %	% shareholding Indirect, %
Group:			
Duro Felguera Investment, S.A.U.	Investment services (La Felguera)	100%	-
Duro Felguera Calderería Pesada, S.A.U.	Pressure vessels and heavy boiler-making (Gijón)	-	100%
DF Técnicas de Entibación, S.A.U.	Shoring material manufacture (Llanera)	-	100%
DF Operaciones y Montajes, S.A.U.	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 (Gijón)	100%	-
DF Mompresa, S.A.U.	Assembly and maintenance of turbines (Gijón)	100%	-
Duro Felguera Oíl&Gas, S.A.	Creation, design, calculation, basic engineering, detailed engineering, management, planning, computerisation, coordination, monitoring and control of projects in the oil, gas and petrochemical industry (Madrid).	100%	-
DF Ingeniería Técnica de Proyectos y Sistemas, S.A.U. in liquidation	Promotion, management, development, maintenance, operation, exploitation and in general any kind of activity related to energy production through the full or partial use of renewable primary energy sources (Gijón).	100%	-
Epicom, S.A.	Research, development, manufacture, marketing, technical assistance, study and consulting in relation to equipment, electronic systems and software (Madrid)	100%	-
Felguera I.H.I., S.A.	Fuel and gas storage equipment (Madrid)	60%	-
Felguera Tecnología de la Información, S.A.	Development of business management software (Llanera).	60%	-
Turbogeneradores del Perú, S.A.C.	Construction and assembly of industrial projects (Peru)	90%	10%
Duro Felguera Argentina, S.A.	Construction, maintenance and supply of equipment for power stations (Argentina).	-	100%

(€ thousand)

2018

Name and legal structure	Activity and location	% shareholding Direct, %	% shareholding Indirect, %
Group:			
Opemasa Andina Ltda	Construction, maintenance and supply of equipment for power stations (Chile)	-	100%
Mopre Montajes de Precisión de Venezuela, S.A	Assembly of turbo-generators and auxiliary equipment in power stations (Venezuela).	-	100%
Turbogeneradores de Venezuela, C.A.	Construction and assembly of industrial projects (Venezuela)	-	100%
Equipamientos Construcciones y Montajes, S.A. de C.V.	Construction and assembly of industrial projects (Mexico)	100%	-
Proyectos e Ingeniería Pycor, S.A. de C.V.	Engineering (Mexico)	99.8%	0.2%
Felguera Diavaz Proyectos México, S.A. de C.V.	Wind energy and cogeneration (Mexico)	50%	-
Felguera Grúas India Private Limited	Port terminals (India).	99.65%	0.35%
Duro Felguera Industrial Projects Consulting Co.Ltd	Industrial engineering project consulting (China).	100%	-
PT Duro Felguera Indonesia	Engineering, supply and construction projects for the mining, energy and industrial sectors (Indonesia).	95%	-
Duro Felguera Australia Pty Lted.	Capital goods engineering (Australia)	100%	-
Duro Felguera Panamá, S.A.	Engineering, supplies and civil works for energy projects (Panama).	100%	
Duro Felguera Saudí LLC	Construction of electricity generation buildings and plants (Saudi Arabia).	95%	5%
Duro Felguera Gulf Contracting LLC	Construction of electricity generation plants (Dubai).	100%	-
DF Canada Ltd	Engineering and construction services	100%	-
Felguera IHI Panamá, S.A.	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 (Panama).	-	60%
Felguera IHI Canada Inc	Engineering and construction services	-	60%
Dunor Energía, S.A.P.I de C.V,	Construction of 313 CC Empalme II combined cycle plant in the state of Sonora (Mexico) under a tender from the Federal Electricity Commission (CFE).	50%	-

2018

Name and legal structure	Activity and location	% shareholding Direct, %	% shareholding Indirect, %
Group:			
DF USA, LLC	Commercial project development (USA)	100%	-
Operación y Mantenimiento Solar Power S.L.	Provision of operation and maintenance services for solar thermal power plants (Madrid).	-	60%
DF do Brasil Desenvolvimiento de Projectos Ltda.	Commercial project development	100%	-
Tanques de Cartagena, S.A.	Hydrocarbon loading, unloading, storage, transfer, processing and handling	-	60%

2018

Name and legal structure	Activity and location	% shareholding Direct, %	% shareholding Indirect, %
Associates:			
Zoreda Internacional, S.A. (4)	Environment (Gijón)	32%	8%
Sociedad de Servicios Energéticos Iberoamericanos	Assembly and maintenance of electricity generation plants (Colombia)	25%	-
Duro Felguera Rail, S.A.	Manufacture and assembly of railway equipment (Mieres)	-	20%

(€ thousand)

2017

Name and legal structure	Activity and location	% shareholding	
		Direct, %	Indirect, %
Group:			
Duro Felguera Investment, S.A.U.	Investment services (La Felguera)	100%	-
Duro Felguera Rail, S.A.	Manufacture and assembly of railway equipment (Mieres)	-	100%
Duro Felguera Calderería Pesada, S.A.U.	Pressure vessels and heavy boiler-making (Gijón)	-	100%
DF Técnicas de Entibación, S.A.U.	Shoring material manufacture (Llanera)	-	100%
DF Operaciones y Montajes, S.A.U.	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 (Gijón)	100%	-
DF Mompresa, S.A.U.	Assembly and maintenance of turbines (Gijón)	100%	-
Duro Felguera Oíl&Gas, S.A.	Creation, design, calculation, basic engineering, detailed engineering, management, planning, computerisation, coordination, monitoring and control of projects in the oil, gas and petrochemical industry (Madrid).	100%	-
DF Ingeniería Técnica de Proyectos y Sistemas, S.A.U in liquidation	Promotion, management, development, maintenance, operation, exploitation and in general any kind of activity related to energy production through the full or partial use of renewable primary energy sources (Gijón).	100%	-
Núcleo de Comunicaciones y Control, S.L.U.	Engineering projects, including necessary civil engineering works (Madrid)	100%	-
Epicom, S.A.	Research, development, manufacture, marketing, technical assistance, study and consulting in relation to equipment, electronic systems and software (Madrid)	100%	-
Felguera I.H.I., S.A.	Fuel and gas storage equipment (Madrid)	60%	-
Felguera Tecnología de la Información, S.A.	Development of business management software (Llanera).	60%	-
Eólica del Principado, S.A.U.	Renewable energy (Oviedo)	60%	-

(€ thousand)

2017

Name and legal structure	Activity and location	% shareholding Direct, %	Indirect, %
Group:			
Turbogeneradores del Perú, S.A.C.	Construction and assembly of industrial projects (Peru)	90%	10%
Duro Felguera Argentina, S.A.	Construction, maintenance and supply of equipment for power stations (Argentina).	-	100%
Opemasa Andina Ltda	Construction, maintenance and supply of equipment for power stations (Chile)	-	100%
Mopre Montajes de Precisión de Venezuela, S.A	Assembly of turbo-generators and auxiliary equipment in power stations (Venezuela).	-	100%
Turbogeneradores de Venezuela, C.A.	Construction and assembly of industrial projects (Venezuela)	-	100%
Equipamientos Construcciones y Montajes, S.A. de C.V.	Construction and assembly of industrial projects (Mexico)	100%	-
Proyectos e Ingeniería Pycor, S.A. de C.V.	Engineering (Mexico)	99.8%	0.2%
Felguera Diavaz Proyectos México, S.A. de C.V.	Wind energy and cogeneration (Mexico)	50%	-
Felguera Grúas India Private Limited	Port terminals (India).	99.65%	0.35%
Duro Felguera Industrial Projects Consulting Co.Ltd	Industrial engineering project consulting (China).	100%	-
PT Duro Felguera Indonesia	Engineering, supply and construction projects for the mining, energy and industrial sectors (Indonesia).	95%	-
Duro Felguera Australia Pty Lted.	Capital goods engineering (Australia)	100%	-
Duro Felguera Panamá, S.A.	Engineering, supplies and civil works for energy projects (Panama).	100%	
Duro Felguera Saudí LLC	Construction of electricity generation buildings and plants (Saudi Arabia).	95%	5%
Duro Felguera Gulf Contracting LLC	Construction of electricity generation plants (Dubai).	100%	-
DF Canadá Ltd.	Engineering and construction services	100%	-
Felguera IHI Panamá, S.A.	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 (Panama).	-	60%

(€ thousand)

2017

Name and legal structure	**Activity and location**	**% shareholding**	
		Direct, %	**Indirect, %**
Group:			
Felguera IHI Canadá Inc.	Engineering and construction services	-	60%
Dunor Energía, S.A.P.I de C.V,	Construction of 313 CC Empalme II combined cycle plant in the state of Sonora (Mexico) under a tender from the Federal Electricity Commission (CFE).	50%	-
DF USA, LLC	Commercial project development (USA)	100%	-
Operación y Mantenimiento Solar Power S.L.	Provision of operation and maintenance services for solar thermal power plants (Madrid).	-	60%

2017

Name and legal structure	**Activity and location**	**% shareholding**	
		Direct, %	**Indirect, %**
Associates:			
Zoreda Internacional, S.A. (4)	Environment (Gijón)	32%	8%
Sociedad de Servicios Energéticos Iberoamericanos	Assembly and maintenance of electricity generation plants (Colombia)	25%	-
MDF Tecnogás, S.A.	Research, manufacture and marketing of all types of fuels and products from biomass and waste, and electricity generation under the Special Regime (Madrid)	50%	-

The following table presents group companies and associates, with details of capital, reserves, profit/(loss) for the year and other key information as presented in the companies' separate financial statements:

2018

	€ thousand					
	Equity					
Company	**Capital**	**Reserves**	**Other items (1)**	**Operating profit/(loss)**	**Profit/(loss) for the year**	**Carrying amount of the investment**
Group:						
Direct holding (2)						
DF Mompresa, S.A.U. (3)	2,736	3,667	(3,667)	(3,701)	(33,910)	-
Felguera Tecnología de la Información, S.A (7)	90	1,141	184	(44)	(9)	176
Duro Felguera Investment, S.A.U.	23,468	5,336	(3,913)	(198)	(14,092)	10,799
Felguera I.H.I., S.A. (3)	2,104	26,633	(31,433)	(41,768)	(42,424)	-
Duro Felguera Operación y Montajes, S.A.U. (3)	120	9,163	(1,448)	(1,641)	(10,639)	-
Equipamientos Construcciones y Montajes, S.A. de C.V	166	6,258	(845)	1,312	689	-
Duro Felguera Oíl & Gas, S.A.U.	3,000	-	(203)	(791)	(795)	2,002
Turbogeneradores del Perú, S.A.C.	9	2,000	(277)	505	489	8
PT Duro Felguera Indonesia	477	-	(769)	(9)	(5)	-
Felguera Diavaz Proyectos México, S.A. (4)	3	-	(7)	-	-	-
Duro Felguera Do Brasil	91	6,087	(6,514)	(735)	(863)	-
DF Ingeniería Técnica de Proyectos y Sistemas, S.A.U. in liquidation (5) (7)	80	381	(807)	499	499	83
Duro Felguera Industrial Projects (7)	140	-	(119)	(5)	(5)	16
Duro Felguera Australia Pty Ltd.	-	-	(48,239)	31,050	36,866	-
Epicom, S.A.	217	4,706	-	886	658	4,636
Duro Felguera Saudí LLC (7)	237	-	(137)	-	-	95
Duro Felguera Gulf Contracting LLC	-	-	-	-	-	-
DF USA, LLC (7)	167	-	(519)	(132)	(133)	-
Dunor Energía, S.A.P.I. de C.V. (6)	1	472	10	2,024	(1,585)	-
DF Canadá Ltd. (7)	-	124	(25)	1,428	1,016	-
Felguera Grúas India Private Limited	50,312	-	(21,037)	(15,712)	(15,912)	13,357
Proyectos e Ingeniería Pycor, S.A. de CV (7)	481	77	(660)	104	127	9

2018

Company	€ thousand					
	Equity					
	Capital	Reserves	Other items (1)	Operating profit/(loss)	Profit/(loss) for the year	Carrying amount of the investment
Indirect holding						
DF Técnicas de Entibación, S.A.U.	3,936	861	(3,334)	(182)	(223)	-
Duro Felguera Calderería Pesada, S.A.U.	9,843	2,831	(5,102)	(8,245)	(8,472)	-
Duro Felguera Argentina, S.A.	13,874	9,974	(57,615)	(15,929)	(23,644)	-
Felguera IHI Canadá Inc	-	20	(8)	-	-	-
Opemasa Andina, Ltda (7)	1	1,791	(4,283)	(4,732)	(6,430)	-
Turbogeneradores de Venezuela C.A.	475	(562)	(1,636)	(9)	(30)	-
Mopre Montajes de Precisión Venezuela, C.A.	368	(314)	(55)	-	2	-
Operación y Mantenimiento Solar Power, S.L.	10	9	-	-	-	-

(1) Mainly interim dividends paid during the year and losses.
(2) Consolidated data included in the direct holding.
(3) The Company has direct and indirect interests in temporary joint ventures included in the companies' financial statements in accordance with their percentage interest.
(4) Dormant.
(5) In liquidation.
(6) Audited by a firm other than the Company's auditors.
(7) Not audited.

2018

	€ thousand					
	Equity					
Company	Capital	Reserves	Other items (1)	Operating profit/(loss)	Profit/(loss) for the year	Carrying amount of the investment
Associates:						
Zoreda Internacional, S.A.	N/A	N/A	N/A	N/A	N/A	17
Sociedad de Servicios Energéticos Iberoamericanos, S.A. (4)	N/A	N/A	N/A	N/A	N/A	-
Duro Felguera Raíl, S.A.	N/A	N/A	N/A	N/A	N/A	-

(1) Mainly interim dividends paid during the year and losses.
(2) Consolidated data included in the direct holding.
(3) The Company has direct and indirect interests in temporary joint ventures included in the companies' financial statements in accordance with their percentage interest.
(4) Dormant.
(5) In liquidation.
(6) Audited by a firm other than the Company's auditors.
(7) Not audited.

2017

	€ thousand					
	Equity					
Company	**Capital**	**Reserves**	**Other items (1)**	**Operating profit/(loss)**	**Profit/(loss) for the year**	**Carrying amount of the investment**
Group:						
Direct holding (2)						
DF Mompresa, S.A.U. (3)	2,736	3,667	(3,772)	(6,682)	(13,261)	-
Felguera Tecnología de la Información, S.A (7)	90	1,065	179	32	(118)	176
Duro Felguera Investment, S.A.U.	23,468	7,549	2,855	(201)	(8,981)	24,892
Felguera I.H.I., S.A. (3)	2,104	26,633	186	(32,847)	(35,430)	-
Duro Felguera Operación y Montajes, S.A.U. (3)	120	10,271	122	1,332	(1,566)	8,947
Equipamientos Construcciones y Montajes, S.A. de C.V	166	4,488	(847)	1,348	1,771	-
Duro Felguera Oíl & Gas, S.A.U.	3,000	-	(694)	(2,874)	(2,921)	-
Turbogeneradores del Perú, S.A.C.	9	1,297	(116)	883	702	7
Eólica del Principado, S.A.U. (7)	60	-	(24)	(1)	(1)	21
PT Duro Felguera Indonesia	477	(488)	90	(407)	(411)	-
Felguera Diavaz Proyectos México, S.A. (4)	3	-	(7)	-	-	-
Duro Felguera Do Brasil	91	6,087	(3,144)	(481)	(2,390)	91
DF Ingeniería Técnica de Proyectos y Sistemas, S.A.U. in liquidation (5) (7)	80	381	(13)	(612)	(794)	-
Núcleo de Comunicaciones y Control S.L.U. (3)	4,000	(510)	1,591	(2,403)	(2,770)	-
Duro Felguera Industrial Projects (7)	140	-	22	(137)	(136)	26
Duro Felguera Australia Pty Ltd.	-	9,497	1,245	(57,925)	(60,520)	-
Epicom, S.A.	217	4,475	-	817	231	4,636
Duro Felguera Saudí LLC (7)	237	-	(137)	-	-	95
Duro Felguera Gulf Contracting LLC	30	-	(485)	(749)	(806)	-
DF USA, LLC (7)	167	-	(168)	(319)	(337)	-
Dunor Energía, S.A.P.I. de C.V. (6)	1	1,141	27	4,357	(669)	1
DF Canadá Ltd. (7)	-	-	(2)	124	124	-
Felguera Grúas India Private Limited	41,779	(11,653)	(1,561)	(2,672)	(2,789)	25,763
Proyectos e Ingeniería Pycor, S.A. de CV (7)	481	77	(622)	23	7	-

(€ thousand)

2017

	€ thousand					
	Equity					
Company	**Capital**	**Reserves**	**Other items (1)**	**Operating profit/(loss)**	**Profit/(loss) for the year**	**Carrying amount of the investment**
Indirect holding						
DF Técnicas de Entibación, S.A.U.	3,936	1,244	122	(3,643)	(3,716)	-
Duro Felguera Calderería Pesada, S.A.U.	9,843	4,761	1,392	(6,121)	(8,286)	-
Duro Felguera Argentina, S.A.	39,499	2,465	(37,010)	2,055	(5,231)	-
Duro Felguera Rail, S.A.	7,997	3,809	1,305	(1,327)	(2,306)	-
Felguera IHI Canadá Inc	-	-	(18)	(13)	40	-
Opemasa Andina, Ltda (7)	1	1,791	13	(287)	(4,850)	-
Turbogeneradores de Venezuela C.A.	475	(562)	(1,037)	265	(62)	-
Mopre Montajes de Precisión Venezuela, C.A.	368	(314)	(1)	(5)	(55)	-
Operación y Mantenimiento Solar Power, S.L.	10	216	-	-	-	-

(1) Mainly interim dividends paid during the year and losses.
(2) Consolidated data included in the direct holding.
(3) The Company has direct and indirect interests in temporary joint ventures included in the companies' financial statements in accordance with their percentage interest.
(4) Dormant.
(5) In liquidation.
(6) Audited by a firm other than the Company's auditors.
(7) Not audited.

2017

	€ thousand					
	Equity					
Company	Capital	Reserves	Other items (1)	Operating profit/(loss)	Profit/(loss) for the year	Carrying amount of the investment
Associates:						
Zoreda Internacional, S.A.	N/A	N/A	N/A	N/A	N/A	17
MDF Tecnogás S.A. (7)	N/A	N/A	N/A	N/A	N/A	-
Sociedad de Servicios Energéticos Iberoamericanos, S.A. (4)	N/A	N/A	N/A	N/A	N/A	-

(1) Mainly interim dividends paid during the year.
(2) Consolidated data included in the direct holding.
(3) The Company has direct and indirect interests in temporary joint ventures included in the companies' financial statements in accordance with their percentage interest.
(4) Dormant.
(5) In liquidation.
(6) Audited by a firm other than the Company's auditors.
(7) Not audited.

No group company in which the Company has an ownership interest is listed on the stock exchange.

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 Company has no contingencies in relation to associates.

11. Loans and receivables

	€ thousand	
	2018	**2017**
Non-current loans and receivables:		
- Loans to employees	516	85
- Other financial assets	52	17
	568	**102**
Current loans and receivables:		
- Trade receivables	128,665	126,940
- Completed work pending certification	43,342	71,104
- Provision for impairment	(70,218)	(52,401)
- Loans to group companies and associates (Note 31)	199,011	170,908
- Group companies (Note 31)	8,612	25,085
- Completed work pending certification, group (Note 31)	3,887	2,939
- Other receivables	25,122	19,205
- Loans to employees	158	101
- Current tax assets (1)	107	108
- Other receivables from Public Administrations (1)	18,349	9,781
- Loans to companies	-	14
- Other financial assets	15,745	3,683
	372,780	**377,467**
	373,348	**377,569**

(1) Balances with public administrations are not included in the analysis of financial instruments (Note 9).

The fair values of loans and receivables are the same as the nominal value.

"Completed work pending certification" includes the difference between production recognised by the Company in each project, and the invoices issued to customers. This amount relates to work covered by the terms of the various contracts in which the billing milestones for the work performed have yet to be reached. The Company considers that there are not doubts that this work will be invoiced.

"Other receivables from Public Administrations" relates mainly to VAT to be offset in joint ventures (UTEs and SUCs). "Current tax assets includes" withholdings made in the year in relation to prepaid income tax.

The total amount of the costs incurred and profits recognised (less losses recognised) for all current contracts at the reporting date were €1,926,310 thousand (2017: €1,787,370 thousand) and €335,943 thousand (2017: €347,294 thousand), respectively. The Company does not record any customer withholdings.

The carrying amounts of loans and receivables are denominated in:

	€ thousand	
	2018	2017
Euro	237,172	143,127
US dollar	99,902	137,579
Algerian dinar	21,537	28,129
Mexican peso	381	1,604
Venezuelan bolivar	-	13
Romanian leu	1,128	-
Indian rupee	61	66,551
Peruvian nuevo sol	431	446
United Arab Emirates dirham	81	-
Canadian dollar	11,215	-
Chilean peso	1,440	-
Other currencies	-	120
	373,348	**377,569**

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

	€ thousand	
	2018	2017
Opening balance	**(52,401)**	**(10,606)**
Provision for impairment of receivables	(17,824)	(41,829)
Reversals	7	34
Closing balance	**(70,218)**	**(52,401)**

The other classes within “Loans and 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 Company does not hold any collateral as security.

At 31 December 2018, in addition to receivables provisioned, receivables amounting to €29,591 thousand had fallen due (2017: €38,871 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 18) for €3.1 million (2017: €32.7 million).

The most important past-due balance relates to the “Termocentro” project being carried out in Venezuela, amounting to €14,662 thousand (2017: €32,028 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 Company 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 Company kept an amount equivalent to the average price of the Venezuelan bonds on the balance sheet, recognising in the period a provision for €17,824 thousand. This took the cumulative amount of the provision at 31 December 2018 to €59,653 thousand. It also showed an amount for completed work pending certification of €13,775 thousand.

The ageing analysis of these receivables is as follows:

	€ thousand	
	2018	**2017**
Up to 3 months	7,052	2,743
Between 3 and 6 months	377	861
Between 6 months and 1 year	212	5,496
More than 1 year	21,950	29,771
	29,591	**38,871**

12. Derivative financial instruments and hedging activities

	€ thousand			
	2018		**2017**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps	-	-	-	-
Other	-	-	1,052	-
Total	**-**	**-**	**1,052**	**-**
Less non-current portion:	-	-	-	-
Current portion	**-**	**-**	**1,052**	**-**

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.

a) Accounting hedges

The Company 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 Company had arranged exchange insurance for a notional amount of USD 20,000 thousand expiring 31 January 2018.

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

	€ thousand	
	2018	**2017**
Balance at 1 January	**789**	**(1,990)**
Net variation due to customer invoicing	-	-
Net variation due to cash balances	-	(222)
Net variation due to supplier invoicing	-	49
Transfer to profit or loss as exchange differences	(789)	2,952
Balance at 31 December	**-**	**789**

13. Inventories

The entire balance of inventories at 31 December 2018 and 2017 relates to advance payments to suppliers for execution of projects in progress.

14. Cash and cash equivalents

	€ thousand	
	2018	**2017**
Cash	62,860	35,505
Other cash equivalents	15,686	23,391
	78,546	**58,896**

Total cash and cash equivalents is included in the statement of cash flows. At 31 December 2018, an amount of €15,609 thousand backed the issue of guarantees for projects and was restricted (31 December 2017: €5,060 thousand).

“Other cash equivalents” includes mainly a deposit earning 0.1% in Romanian leis securing the issue of warranties for a project. In 2017, this item included deposits and interest-bearing accounts in euros and dollars with maturities of less than three months, earning interest that fluctuated between 0.05% and 0.20% and between 0.10% and 0.25%, respectively.

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

	2018	**2017**
Euro	55,832	22,399
US dollar	3,925	26,032
Mauritanian ouguiya	874	-
Algerian dinar	2,781	5,811
AED dirham	656	4,606
Romanian leu	14,416	-
Other	62	48
	78,546	**58,896**

15. Capital, share premium, reserves, prior-year results and profit/(loss) for the year

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:

(€ thousand)

- 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 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:

Shareholder	% direct or indirect shareholding
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%

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

Shareholder	% direct or indirect shareholding
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.

d) Reserves

	€ thousand	
	2018	**2017**
Legal and statutory reserves		
- Legal reserve	-	16,000
	-	**16,000**
Other reserves:		
- Voluntary reserves	(8,242)	144,490
- Revaluation reserve RD-Law 7/96	-	958
- Reserve for adjustments to RD-1514/2007	-	(81)
- Differences on translation of capital to euros	-	75
- Other reserves	-	3
- Reserves for business combinations	-	(1,545)
	(8,242)	**143,900**
	(8,242)	**159,900**

e) Legal reserve

The legal reserve is 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.

f) Revaluation reserve Royal Decree-Law 7/1996, of 7 June

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 2008, 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.

g) Prior periods' profit and loss

	€ thousand	
	2018	**2017**
Retained earnings	4,200	4,397
Prior periods' losses	(185,263)	(108,488)
	(181,063)	**(104,091)**

h) Profit/(loss) for the year

h.1) Proposed application of losses

The proposed application of losses and reserves to be presented for approval at the Annual General Meeting is as follows:

	€ thousand	
	2018	**2017**
Basis of distribution		
Profit/(loss)	63,992	(227,522)
	63,992	**(227,522)**

	€ thousand	
	2018	**2017**
Distribution		
Legal reserve	6,399	-
Dividends	-	-
Prior periods' losses	57,593	(227,522)
	63,992	**(227,522)**

h.2) 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 18) in an amount equal to the dividend to be distributed.

h.3) Limitations on the distribution of dividends

Reserves subject to some type of legal restriction on their use relate to the legal reserve.

16. Share-based payments

No share delivery plan was agreed in 2018 or 2017.

17. Grants received

The amount recognised under capital grants relates to the restatement of loans granted for building construction, net of the related tax effect (Note 21). In 2018, €181 thousand were transferred to the income statement (2017: €127 thousand).

18. Debts and payables

	€ thousand	
	2018	**2017**
Non-current debts and payables:		
Bonds and other marketable debt securities	8,069	-
- Bank borrowings	85,000	64,911
- Other loans	2,312	3,137
	95,381	**68,048**
Current debts and payables:		
- Bank borrowings	297	252,262
- Finance lease payables	-	1,525
- Suppliers	124,782	168,062
- Suppliers, group companies and associates (Note 31)	29,049	30,938
- Other payables	10,210	10,046
- Current payables to group companies and associates (Note 31)	41,882	46,904
- Other financial liabilities	1,172	1,481
- Salaries payable	3,205	2,940
- Current tax liability (1)	1,556	763
- Other payables to Public Administrations (1)	3,833	5,386
- Advances from customers	95,470	54,936
	311,456	**575,243**
	406,837	**643,291**

(1) Balances with public administrations are not included in the analysis of financial instruments (Note 9).

The exposure of the Company's debts and payables to changes in interest rate, mainly payables to group companies and bank borrowings, for €126,882 thousand (2017: €365,602 thousand), is reviewed annually and quarterly, respectively.

The carrying amounts and fair values of the non-current borrowings are as follows:

	€ thousand			
	Carrying amount		Fair value	
	2018	2017	2018	2017
Bonds and other marketable debt securities	8,069	64,911	8,069	64,911
- Bank loans	85,000	-	85,000	-
- Finance lease payables	-	-	-	-
- Other loans	2,312	3,137	2,312	3,137
	95,381	**68,048**	**95,381**	**68,048**

The carrying amount of current borrowings approximates fair value as the effect of discounting is not material. Fair values are based on cash flows discounted at an interest rate based on the borrowing rate of 4% (2017: 4%).

The effect of discounting the interest-free loans is recognised in "Capital grants" net of the tax effect, which will be released to profit or loss as the assets to which the grants relate are depreciated.

The carrying amount of the Company's borrowings are denominated in the following currencies:

	€ thousand	
	2018	2017
Euro	367,406	597,363
US dollars	15,345	20,034
Pound sterling	152	689
Venezuelan bolivar	-	30
Algerian dinar	21,803	22,496
Peruvian nuevo sol	19	74
Mexican peso	79	288
Indian rupee	371	290
Romanian new leu	408	1,995
Australian dollar	1,018	
Other	236	32
	406,837	**643,291**

The Company has the following undrawn credit and discounting facilities:

	€ thousand	
	2018	2017
Floating rate:		
- Expiring within one year	-	67
- Expiring beyond one year	-	89
	-	**156**

a) Convertible bonds

On 27 July 2018 (effective date), Duro Felguera, S.A., under the scope of the refinancing agreements (Note 17 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 Convertibles 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:

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

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

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

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

    - 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.

    - 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 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.

- **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.

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

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

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

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

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

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

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

    - Second, if this threshold is exceeded, the number of shares to be issued will depend directly on the 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 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.

The Company has an independent expert valuation dated 13 February 2019. For the measurement, a binomial tree was developed and 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);

(€ thousand)

- 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 loans

On 21 June 2018, the 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 18 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 18 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 accounting regulations, 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 24) 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.

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) Finance lease payables

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 Company repaid in full the outstanding amount of the finance lease, so there was no amount for this item at 31 December 2018.

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
- Between one and five years	-	-
- More than five years	-	-
	-	**1,525**

d) Other loans

"Other non-current loans" mainly includes the updated debts with official bodies mainly loans received from the Ministry of Education and Science and other bodies, for a nominal amount of €8,790 thousand (2017: €8,790 thousand). The effect of discounting is recognised in "Capital grants".

The present value of these loans at 31 December 2018 was €2,312 thousand (2017: €3,137 thousand).

e) Other current financial liabilities

This item mainly includes mainly the current portion of payables to official bodies described above.

f) 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	202.66	209.94
– Ratio of transactions paid	161.82	185.99
– Ratio of transactions outstanding	294.55	267.84

	€ thousand	
	2018	**2017**
– Total payments made	122,722	198,686
– Total payments outstanding	54,536	82,211

19. Long-term employee benefits

A breakdown of the amounts recognised in the balance sheet in respect of long-term employee benefits and the corresponding charges to the income statement for the different types of defined contribution commitments that the Company has arranged with its employees is as follows:

	€ thousand	
	2018	**2017**
Balance sheet obligations for:		
-Coal vouchers	104	109
-Length-of-service awards and other employee commitments	899	492
	1,003	**601**

The amounts recognised in the balance sheet are determined as follows:

	€ thousand	
	2018	**2017**
Present value of the obligations assumed	1,003	601
Liability in the balance sheet	**1,003**	**601**

a) Coal vouchers

The movement in the coal voucher obligation with serving employees is as follows:

	€ thousand	
	2018	2017
Opening balance	**109**	**114**
Benefits paid	(9)	(9)
Provisions	4	4
Reversals	-	-
Closing balance	**104**	**109**

Annual provisions for coal vouchers are calculated based on actuarial studies described in Note 3.14.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of recognised income and expense in the period in which they arise.

The provision at year-end relates mainly to accruals of future obligations acquired with serving and retired personnel for the monthly supply of a specific quantity of coal.

b) Other obligations with employees

The movement in other obligations with employees over the year was as follows:

	€ thousand	
	2018	2017
Opening balance	**492**	**425**
Current service cost	619	200
Decreases	(212)	(133)
Closing balance	**899**	**492**

20. Provisions for liabilities and charges and other trade provisions

The changes in this item in the year are as follows:

	€ thousand			
2018	**Provisions for liabilities**	**Provision for warranties**	**Other provisions**	**Total**
Opening balance	**67,546**	**16,699**	**17,046**	**101,291**
Provisions	47,321	2,525	30,521	80,367
Amounts reversed and used	(39,041)	(5,692)	(13,268)	(58,001)
Transfers	-	21	-	21
Closing balance	**75,826**	**13,553**	**34,299**	**123,678**

Analysis of total provisions:

	€ thousand	
	2018	**2017**
Non-current	75,826	67,546
Current	47,852	33,745
	123,678	**101,291**

"Provision for liabilities" includes mainly provisions recognised to cover negative equity of certain subsidiaries (Note 10). Amounts reversed and used in the period relate to the reversal of the provision for liabilities of DF Australia for €37,780 thousand after the subsidiary recognised the positive impact of the ruling on the arbitration with Samnsung C&T Corporation (Note 33) and the amount utilised of the provision for liabilities of Duro Felguera Gulf Contracting LLC for €1,261 thousand (Note 10).

"Provision for warranties" 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, and taking into account the historical development of the amounts that have had to be assumed for this type of contingencies.

"Other provisions" includes provisions recognised by the Company for losses of €29,630 thousand and for penalties of €2,449 thousand. At 31 December 2017, provisions for €13,913 thousand and €2,449 thousand, respectively, were recognised.

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

21. Deferred taxes

The breakdown of deferred taxes is as follows:

	€ thousand	
	2018	**2017**
Deferred tax assets:		
- Temporary differences	**37,924**	**4,728**
	37,924	4,728
Deferred tax liabilities:		
- Temporary differences	**(36,019)**	**(4,394)**
	(36,019)	(4,394)
Deferred taxes	**1,905**	**334**

	€ thousand	
	2018	**2017**
Deferred tax assets:		
- Non-current	31,099	4,728
- Current	6,825	-
	37,924	**4,728**
Deferred tax liabilities:		
- Non-current	(29,364)	(4,394)
- Current	(6,655)	-
	(36,019)	**(4,394)**
Deferred taxes	**1,905**	**334**

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

	€ thousand	
	2018	**2017**
Opening balance	**334**	**38,072**
Income statement charge (Note 22)	(1,927)	(33,554)
Tax charged directly to equity	3,498	(4,184)
Closing balance	**1,905**	**334**

The movement in deferred income tax assets and liabilities during the year, without taking in account the offsetting of balances, is as follows:

	€ thousand				
Deferred tax assets	**Provisions for pensions and employee obligations**	**Provisions for warranties and liabilities**	**Taxable income (tax losses) and deductions**	**Adaptation to Royal Decree 1514/2007 and other**	**Total**
Balance at 31 December 2016	**708**	**6,379**	**30,784**	**4,954**	**42,825**
(Charged)/credited to the income statement	(708)	(2,715)	(30,784)	133	(34,074)
Charged directly to equity	-	440	-	(4,463)	(4,023)
Balance at 31 December 2017	**-**	**4,104**	**-**	**624**	**4,728**
(Charged)/credited to the income statement	-	(786)	33,275	(2,458)	30,031
Charged directly to equity	-	-	-	3,165	3,165
Balance at 31 December 2018	**-**	**3,318**	**33,275**	**1,331**	**37,924**

In 2017, the Company reassessed the recovery of deferred tax assets taking into account the deferred tax assets and liabilities 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 Company derecognised a total amount of €35,668 thousand, relating mainly to tax losses.

With effect from 1 January 2015, following the entry into force of Corporate Income Tax Law 27/2014, of 27 November, there is no limit on the utilisation of tax loss carryforwards.

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

	€ thousand			
Deferred tax liabilities	**Gains on transactions with non-current assets**	**Other**	**Subsidiaries, interest-free loans**	**Total**
Balance at 31 December 2016	**129**	**3,805**	**819**	**4,753**
Charged/(credited) to the income statement	-	(519)		(519)
Charged directly to equity	-	160	-	160
Balance at 31 December 2017	**129**	**3,446**	**819**	**4,394**
Charged/(credited) to the income statement	-	31,958	-	31,958
Charged directly to equity	-	(301)	(32)	(333)
Balance at 31 December 2018	**129**	**35,103**	**787**	**36,019**

The Company 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, less the share of related costs, arising from the refinancing agreement signed by the Group (Note 17) 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.

Article 11.13 of Corporate Income Law 27/2014, of 27 December, states that income from forbearance is recognised as the financial costs arising from the same debt are recognised. If the income exceeds the costs pending recognition arising from the debt, it is recognised in proportion to the expenses recognised in each period relative to the total financial expenses pending recognition.

Accordingly, the tax income recognised annually in the corporate tax statement in this connection 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 tax loss carryforwards 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, prevailing accounting regulations state 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. The 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.

22. Income tax and tax situation

The reconciliation of net income and expense with taxable income (tax loss) is as follows:

2018	**€ thousand**		
Income and expense for the year	**Income statement**		
	Increases	**Decreases**	**Total**
Net profit	63,992	-	63,992
Income tax	3,557	-	3,557
Permanent differences	177,642	(159,574)	18,068
Temporary differences:			
- arising in the year	14,645	(133,099)	(118,454)
- arising in prior years		(18,821)	(18,821)
Taxable income (tax loss)			(51,658)
Offset of tax loss carryforwards			-
			(51,658)

Income tax expense comprises:

	€ thousand	
	2018	**2017**
Current tax	(77)	-
Foreign tax	(1,410)	2,042
Adjustment of prior year current tax	(31)	422
Adjusted of prior deferred tax (Note 21)	78	(2,480)
Tax credit (Note 21)	33,275	(28,771)
Deferred tax (Note 21)	(35,280)	(2,303)
Other	(112)	(172)
	(3,557)	**(31,262)**

Permanent differences are mainly generated as a result of the exclusion by the Company of income from branches and permanent establishments abroad, in accordance with the provisions of article 21 of Corporate Income Tax Law 27/2015, as well as the provisions of article 17.2 of said Law in relation to income arising from accounting income related to the conversion of the Class A Convertible Bonds and the provisions of article 13 of said Law.

Duro Felguera, S.A. and the subsidiaries in which it directly or indirectly holds an interest of over 75% pay income tax under the consolidated tax scheme. This system requires the Tax Group reporting the taxable income be 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 Company is open to inspection for 2013 and subsequent years in respect of corporate income tax, and 2014 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. 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.

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 07 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.

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 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;

- 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 expected 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.

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 208 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.

23. Revenue and expenses

a) Foreign currency transactions

The amounts of foreign currency transactions are as follows:

	€ thousand	
	2018	**2017**
Purchases	30,561	37,471
Sales	45,271	83,875

b) Revenue

The following table presents the geographic breakdown of the Company's revenue:

	%	
Market	**2018**	**2017**
Domestic market	11.28	9.50
International market	88.72	90.50
	100.00	**100.00**

The breakdown of revenue by product line is as follows:

	%	
Line	**2018**	**2017**
Energy project management	53.89	70.22
Mining & Handling project management	34.36	18.02
Oil & Gas project management	8.23	5.30
Sundry services	3.52	6.46
	100.00	**100.00**

In 2018, the Energy segment recorded sales totalling €77 million, €33 million and €22 million, respectively, with three customers that, individually, represented over 10% of the Company's revenue (2017: three customers amounting to €80.8 million, €61 million and €28.5 million).

c) Operating grants released to income

No operating grants were recognised in 2018 and 2017.

d) Personnel expenses

	€ thousand	
	2018	**2017**
Salaries and wages	31,595	27,806
Termination benefits	2,551	174
Employee benefits expense:		
- Social Security payable by the Company	7,607	5,880
- Other benefits	568	260
	42,321	**34,120**

The average number of employees during the reporting period, by category, is as follows:

	Number of employees	
	2018	**2017**
Directors	1	1
University graduates	304	283
Middle-level technicians	124	117
Other technicians	150	72
Administrative staff	56	53
Other	24	27
	659	**553**

The distribution of Company personnel by gender at the end of the reporting period is as follows:

	2018			**2017**		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Directors	1	-	1	-	-	-
Senior managers	5	-	5	7	-	7
University graduates, technicians and administrative personnel	453	156	609	369	152	521
Other	25	-	25	32	-	32
	484	**156**	**640**	**408**	**152**	**560**

At 31 December 2018, there were 11 employees (all men) with a disability of greater than 33%. In 2017, there were 10 employees (nine men and one woman).

e) External services

External services include mainly independent professional services and engineering services.

f) Gains/(losses) on disposals of assets

	€ thousand	
	2018	**2017**
Property, plant and equipment	-	180
Investment properties	-	-
	-	**180**

24. Net finance income/(cost)

	€ thousand	
	2018	2017
Finance income:		
Dividends		
- Group companies and associates (Note 31)	45	9,422
Marketable securities and other financial instruments		
- Group companies and associates (Note 31)	6,615	4,599
- Other	215,406	868
	222,066	**14,889**
Finance costs:		
Group companies and associates (Note 31)	(85)	(208)
On payables to third parties	(3,905)	(5,204)
	(3,990)	**(5,412)**
Change in fair value of financial instruments:		
Trading portfolio and other	**(10)**	**(36)**
Exchange gains/(losses)	**6,796**	**(18,684)**
Impairment and gains/(losses) on disposal of financial instruments		
Impairment and losses	(73,155)	(119,045)
Gains/(losses) on disposal and other	(7,612)	(339)
	(80,767)	**(119,384)**
Net finance income/(cost)	**144,095**	**(128,627)**

a) Finance income and costs

	€ thousand	
	2018	2017
Finance income:		
- Dividends from investments in group companies and associates	45	9,422
- Interest from debt securities	464	868
- Financial restructuring (Note 18)	214,942	-
- Other finance income from group companies	6,615	4,599
	222,066	**14,889**
Finance costs:		
- Interest on current accounts and loans to group companies	(85)	(208)
- Lease interest	(156)	(698)
- Loan interest	(3,582)	(4,302)
- Interest due to restatement	(167)	(204)
	(3,990)	**5,412**

b) Impairment and gains/(losses) on disposal of financial instruments

	€ thousand	
	2018	**2017**
Impairment losses:		
- Investments in group companies and associates	(73,155)	(119,045)
	(73,155)	**(119,045)**
Losses on impairment, disposals and other:		
Impairment and reversal of impairment of other financial assets	(7,612)	(339)
	(7,612)	**(339)**
	(80,767)	**(119,384)**

Impairment losses on investments related primarily to Felguera Grúas India Private Limited, DF Mompresa, S.A. and Duro Felguera Investment, S.A. (Notes 10 and 20)

c) Exchange gains/(losses)

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

25. Cash flows from operating activities

	€ thousand	
	2018	**2017**
Profit/(loss) for the year before tax	**67,549**	**(196,260)**
Profit/(loss) adjustments:		
- Amortisation and depreciation	3,504	4,045
- Valuation allowances for impairment losses	-	8,760
- Changes in provisions	30,501	56,001
- Grants recognised in the income statement	(181)	(127)
- Exchange gains/(losses)	(6,796)	-
- Proceeds from disposals of fixed assets	-	(180)
- Other movements in financial assets	-	(4,555)
- Own work capitalised	(7)	-
- Impairment and reversal of impairment of investments	73,155	119,044
- Finance income	(222,066)	(14,889)
- Finance costs	3,990	5,412
- Change in fair value of financial instruments	10	36
- Other income and expenses	-	(63)
	(117,890)	**173,484**
Changes in operating assets and liabilities:		
- Inventories	(546)	3,050
- Trade and other receivables	35,581	21,678
- Other financial assets	(47,990)	15,095
- Other current assets	(11,139)	(3,184)
- Trade and other payables	5,155	(29,822)
- Other financial liabilities	(38,186)	19,648
- Other current liabilities	803	10,537
	(56,322)	**37,002**
Other cash flows from operating activities:		
-Interest paid	(3,990)	(5,412)
-Dividends received	-	9,422
-Interest received	464	5,468
-Other amounts paid (received)	-	-
	(3,526)	**9,478**
Cash flows from operating activities	**(110,189)**	**23,704**

26. Cash flows from investing activities

	€ thousand	
	2018	2017
Payments for investments:		
- Group companies and associates	-	(5,348)
- Property, plant and equipment and investment property	(542)	(48)
- Intangible assets	-	(366)
- Other financial assets	-	-
	(542)	**(5,762)**
Proceeds from sale of investments:		
- Property, plant and equipment and investment property	26,943	180
	26,943	**180**
Cash flows from/(used in) investing activities	**26,401**	**(5,582)**

27. Cash flows from financing activities

	€ thousand	
	2018	2017
Proceeds from and payments for equity instruments:		
- Issue:		
- Equity instruments	125,712	-
	125,712	-
Proceeds from and payments for financial liability instruments:		
- Issue:		
- Bank borrowings	1,101	27,893
- Redemption and repayment		
- Bank borrowings	(1,772)	(39,129)
- Other payables	(23,423)	(5,634)
	(24,094)	(16,870)
	101,618	**(16,870)**
Dividends and interest on other equity instruments paid:		
- Dividends and interest on other equity instruments paid	-	-
- Other payments to shareholders of the company	(197)	
	(197)	-
Cash flows from/(used in) financing activities	**101,421**	**(16,870)**

28. Guarantees, commitments and other contingencies

a) Contingent liabilities

The Company has no contingent liabilities in respect of litigation arising in the ordinary course of business, from which it does not expect any material liabilities to arise.

b) Guarantees

At year-end, the Company had directly or indirectly provided the following guarantees, which basically relate to security deposits on sales contracts and loans, and bank guarantees:

	€ thousand	
	2018	**2017**
Dunor Energía S.A.P.I. de C.V.	173,362	165,512
Duro Felguera Australia Pty Ltd.	59,090	68,008
Duro Felguera Calderería Pesada, S.A.U.	54,846	62,425
Duro Felguera Argentina	84,011	60,604
DF Mompresa, S.A.U.	55,079	56,155
Duro Felguera Gulf Contracting, LLC.	-	55,131
Opemasa Andina Ltda	41,319	40,286
Turbogeneradores de Perú	29,258	28,833
Núcleo	4,160	14,238
Felguera Grúas India Private Limited	20,304	6,553
Duro Felguera Oíl & Gas S.A.U.	34,727	4,699
Felguera IHI, S.A.	94,063	-
Duro Felguera Rail, S.A.U.	1,466	3,860
DF Operaciones y Montajes, S.A.U.	1,553	3,240
Duro Felguera UK	4,662	1,045
Epicom	502	465
Consorcio El Sitio	187	34
UTE Termocentro	2,974	-
Other group companies	59	174
	661,622	**571,262**

The Company has not provided any collateral as security for its projects. In addition, the Company 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 Company 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.

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. (INGESPRE), 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.

In addition, in light of the report issued by Grant Thorton'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

Duro Felguera Australia, Ltd. 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.

As explained in Note 33, on 1 March 2019, the Australian subsidiary received a final partial ruling by the Singapore International Arbitration Centre (SIAC). The ruling requires payment to the subsidiary 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 subsidiary cancelled part of the provisions recognised, recognised the portion of interest that is virtually certain as an asset 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.

The accounting effects of this ruling were recognised in the accompanying separate financial statements, with a positive impact on equity and profit of €38 million due to the partial reversal of the provision of liabilities recognised to cover the negative equity.

Vuelta de Obligado

On 29 August 2016, UTE Duro Felguera Argentina, S.A. – Fainser (90%-owned by Duro Felguera Argentina, S.A.) filed an arbitration claim 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 2.6.f).

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 Felguera Grúas India Private Limited'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.

Navayuga Engineering Company

On 30 August 2018, the ruling on the arbitration between the subsidiary in India, Felguera Grúas 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 Grúas India's claims, for €2.3 million. The subsidiary in India set aside a provision of €2.6 million to adjust the receivable to the amount recognised by the court.

Gangavaram Port Limited

Subsidiary Felguera Grúas India (FGI) is involved in an arbitration in India with a customer of the Krishna Port 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.

Trade and other receivables of the Company and the FGI subsidiary 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 Company 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 financial statements.

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.

The subsidiary includes under trade and other receivables €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 for the maximum contractual penalty for “liquidated damages” of 10%.

The Company 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 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.

Subsidiary FGI includes under receivables 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 Company 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.

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 financial statements.

The Company also had the following commitments at year-end:

	€ thousand	
	2018	**2017**
Guarantees of sales and execution contracts	313,576	329,746
For tender proposals	-	911
Other	1,326	37
	314,902	**330,694**

The Company has not provided any collateral as security for its projects. In addition, the Company 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.

c) Commitments

At year-end 2018 and 2017, there were no significant commitments to investment in property, plant and equipment and intangible assets

29. Temporary joint ventures and branches

The Company has interests with other companies a number of temporary joint ventures. The amounts of the share in their working capital in these ventures and receivable or payable, along with transactions with the joint ventures, are settled on the basis of the percentage interest held as the items of venture's balance sheet and income statement are proportionately integrated. Excess balances (or shortfalls) with other members of the consortium are retained.

The following table presents the temporary joint ventures at the year-end, the percentage interests and other significant information:

Company	% interest	Location	Activity
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	50%	Madrid	Civil works for combined cycle plant
UTE Andasol III	40%	Madrid	Turnkey supply of solar thermal plant
UTE Termocentro	90%	Gijón	Design, supply, construction and commissioning of Termocentro CCTP.
UTE New Chilca	85%	Gijón	Execution of the construction work on the New Chilca combined cycle thermal plant.
UTE FDB Zeebrugge	10%	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
UTE 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

The amounts shown represent the Company's interests in the assets and liabilities, and the sales and profits of the joint ventures. The amounts have been included in the balance sheet, the income statement, the statement of cash flows and the statement of changes in equity.

	€ thousand	
	2018	**2017**
Assets:		
Non-current assets	-	16
Current assets	50,666	66,772
	50,666	**66,788**
Liabilities:		
Non-current liabilities	-	(74)
Current liabilities	(100,882)	(94,501)
	(100,882)	(94,575)
Net assets	**(50,216)**	**(27,787)**
Income	2,647	16,748
Expenses	(19,593)	(49,042)
Profit after tax	**(16,946)**	**(32,294)**

30. Director and senior management remuneration

a) Key management and director compensation

	€ thousand	
Salaries and other short-term remuneration:	**2018**	**2017**
Members of the Board of Directors	976	1,061
Management personnel	1,109	1,909
	2,085	**2,970**

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.

b) Loans to related parties

	€ thousand	
	2018	**2017**
Loans to directors, management personnel and their family members:		
Opening balance	54	72
Loan repayments received	(19)	(18)
Loans granted in the year	-	-
Closing balance	**35**	**54**

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

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

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

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

31. Other related party transactions

a) Transactions and balances with group companies, associates and related parties

Transactions carried out during the year with Group companies and associates (direct or indirect investees) and year-end balances are as follows:

2018	€ thousand								
	Transactions				Debit/(credit) balances				
GROUP COMPANIES	Revenue and other operating income	Supplies and other operating expenses	Finance income	Finance costs	Loans to Group companies	Trade receivables and other financial assets	Payables to group companies	Suppliers, group companies	Dividends received
a) **Direct interest**:									
Felguera I.H.I., S.A.	3,120	(692)	47	-	15,847	2,003	(2,237)	-	-
Duro Felguera Operaciones y Montajes, S.A.U	1,739	2,767	-	-	-	17,792	(8,032)	(5,493)	-
Duro Felguera Investment, S.A.U.	-	-	62	-	-	101	-	-	-
DF Mompresa, S.A.U.	2,075	(4,341)	-	-	-	2,425	-	(4,363)	-
DF Australia Pty Lda	224	-	773	-	38,847	16,251	-	-	-
DF Uk	-	-	-	-	-	-	-	-	-
Duro Felguera Oíl&Gas, S.A.U.	756	-	6	-	926	484	(24,868)	-	-
Equipamientos, Construcciones y Montaje, S.A. de CV	10,318	-	-	-	-	4,022	(3,014)	-	-
Proyectos e Ingeniería Pycor, S.A. de C.V.	172	(457)	-	-	-	159	-	(30)	-
DF Ingeniería Técnica de Proyectos y Sistemas, S.A.U.	-	-	-	-	-	-	(135)	-	-
Núcleo de Comunicación y Control, S.L	-	(885)	-	-	-	-	-	-	-
Epicom, S.A.U.	302	-	-	-	-	-	(723)	-	-
Duro Felguera Argentina	-	-	5,370	-	42,085	25,122	-	(16,654)	-
Duro Felguera do Brasil	-	-	76	-	884	94	-	-	-
Duro Felguera Indonesia	-	-	-	-	-	799	-	-	-
Felguera Grúas India Private Limited	-	-	-	-	-	1,790	-	-	-
Turbogeneradores de Perú	-	-	-	(70)	-	470	(292)	(823)	-
Dunor Energía	2,388	-	-	-	-	10,244	-	-	-
Felguera Tecnologías de la Información, S.A.	14	-	-	-	-	60	-	-	45
DF Canada Ltd	1,160	-	-	(13)	-	1,160	(1,007)	-	-
Other group companies	10	-	-	-	625	71	(149)	-	-
	22,278	**(3,608)**	**6,334**	**(83)**	**99,214**	**83,047**	**(40,457)**	**(27,363)**	**45**

	€ thousand								
	Transactions				Debit/(credit) balances				
	Revenue and other operating income	Supplies and other operating expenses	Finance income	Finance costs	Loans to Group companies	Trade receivables and other financial assets	Other payables to group companies	Suppliers, group companies	Dividends received
b) <u>Indirect interest</u>:									
DF Técnicas de Entibación, S.A.U.	-	-	-	-	2,000	-	(1,408)	-	-
Duro Felguera Calderería Pesada, S.A.U.	480	(2,417)	-	-	-	18,962	-	(1,686)	-
Duro Felguera Raíl, S.A.U.	14	-	-	-	-	191	-	-	-
Opemasa Andina, Ltda	-	-	281	(2)	11,452	2,169	-	-	-
Turbogeneradores de Venezuela C.A.	-	-	-	-	1,472	387	-	-	-
	494	**(2,417)**	**281**	**(2)**	**14,924**	**21,709**	**(1,408)**	**(1,686)**	**-**
ASSOCIATES:									
Zoreda Internacional, S.A.	-	-	-	-	-	-	(17)	-	-
	-	**-**	**-**	**-**	**-**	**-**	**(17)**	**-**	**-**
TOTAL	**22,772**	**(6,025)**	**6,615**	**(85)**	**114,138**	**104,756**	**(41,882)**	**(29,049)**	**45**

NOTES TO THE 2018 FINANCIAL STATEMENTS

(€ thousand)

2017	€ thousand								
	Transactions				Debit/(credit) balances				
GROUP COMPANIES	Revenue and other operating income	Supplies and other operating expenses	Finance income	Finance costs	Loans to Group companies	Trade receivables and other financial assets	Payables to group companies	Suppliers, group companies	Dividends received
a) Direct interest:									
Felguera I.H.I., S.A.	11,557	54	-	-	-	10,527	(2,533)	(1,612)	-
Duro Felguera Operaciones y Montajes, S.A.U	1,393	(3,189)	-	-	14,406	1,686	(8,032)	(9,571)	4,500
Duro Felguera Investment, S.A.U.	-	-	53	-	6,400	-	(3,604)	-	4,000
DF Mompresa, S.A.U.	3,457	(1,384)	-	-	9,724	5,319	-	(597)	-
DF Australia Pty Lda	727	-	416	-	42,134	727	-	-	-
DF Uk	-	-	-	-	-	-	-	-	-
Duro Felguera Oíl&Gas, S.A.U.	3,247	-	-	-	-	2,677	(20,806)	-	-
Equipamientos, Construcciones y Montaje, S.A. de CV	734	-	-	-	-	727	(3,451)	-	-
Proyectos e Ingeniería Pycor, S.A. de C.V.	-	(746)	-	-	159	-	-	(105)	-
DF Ingeniería Técnica de Proyectos y Sistemas, S.A.U.	-	(4,744)	-	-	-	-	(698)	-	-
Núcleo de Comunicación y Control, S.L	547	(585)	-	-	3,429	-	-	(324)	-
Epicom, S.A.U.	109	-	-	-	-	132	(1,329)	-	900
Duro Felguera Argentina	(5,769)	-	4,007	-	54,562	-	-	(16,654)	-
Duro Felguera do Brasil	-	-	15	-	288	-	-	-	-
Duro Felguera Indonesia	-	-	-	-	455	-	-	-	-
Felguera Grúas India Private Limited	-	-	-	-	1,684	-	-	-	-
Duro Felguera Gulf Contracting	-	(1,238)	-	-	2,825	-	-	(1,222)	-
Turbogeneradores de Perú	-	(372)	-	(155)	-	-	(3,321)	(851)	-
Dunor Energía	8,918	-	-	-	5,718	5,631	-	-	-
Other group companies	31	(19)	16	-	651	38	(25)	-	22
	24,951	**(12,223)**	**4,507**	**(155)**	**142,435**	**27,464**	**(43,799)**	**(30,936)**	**9,422**

	€ thousand								
	Transactions				Debit/(credit) balances				
	Revenue and other operating income	**Supplies and other operating expenses**	**Finance income**	**Finance costs**	**Loans to Group companies**	**Trade receivables and other financial assets**	**Other payables to group companies**	**Suppliers, group companies**	**Dividends received**
b) Indirect interest:									
DF Técnicas de Entibación, S.A.U.	146	-	44	-	2,000	93	(788)	-	-
Duro Felguera Calderería Pesada, S.A.U.	716	(25)	-	-	13,582	-	-	-	-
Duro Felguera Raíl, S.A.U.	386	-	-	-	11,029	467	-	-	-
Opemasa Andina, Ltda	-	-	-	(52)	-	-	(2,300)	-	-
Turbogeneradores de Venezuela C.A.	-	-	48	(1)	1,862	-	-	(2)	-
	1,248	**(25)**	**92**	**(53)**	**28,473**	**560**	**(3,088)**	**(2)**	**-**
ASSOCIATES:									
Zoreda Internacional S.A	-	-	-	-	-	-	(17)	-	-
	-	**-**	**-**	**-**	**-**	**-**	**(17)**	**-**	**-**
TOTAL	**26,199**	**(12,248)**	**4,599**	**(208)**	**170,908**	**28,024**	**(46,904)**	**(30,938)**	**9,422**

The balances and transactions included in the above tables relate mainly to:

- Trade receivables and payables between Duro Felguera, S.A. and Group, which have usual market payment periods, are not insured and do not bear any interest.

- Current accounts, credit facilities and loans granted to and received from certain Group companies, which bear interest at market rates.

At 31 December 2018 and 2017, no dividends or other benefits were paid to significant shareholders (Note 15).

32. Environmental disclosures

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

33. Events after the reporting period

On 1 March 2019, the Duro Felguera Australia subsidiary 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 Duro Felguera Australia 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 subsidiary cancelled part of the provisions recognised, recognised the portion of interest that is virtually certain as an asset in accordance with the assessment of the Company's external legal advisers and recognised the related liabilities with third parties, after assessing the related risks, in accordance with the assessment of the Company'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 separate financial statements, with a positive impact on equity and profit of €38 million due to the partial reversal of the provision of liabilities recognised to cover the negative equity of this subsidiary (Note 20). Moreover, during the execution of the Roy Hill project and the arbitration proceeding with Samsung C&T Corporation, the Company incurred approximately €40 million of legal costs, which were recognised as expenses in this and previous years.

34. Auditors' fees

Fees accrued during the year by E&Y for the audit of the financial statements and other audit-related services amounted to €729 thousand (2017: €262 thousand for audit services).

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

35. Additional note for English translation

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Consequently, certain accounting practices applied by the Company may not conform with generally accepted principles in other countries.

DURO FELGUERA, S.A.

2018 Management Report

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.

The 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		
	2018	**2017**	**% Change**
Revenue	207,698	279,452	-25.7%
EBITDA (3)	(66,247)	(78,536)	-15.6%
Profit/(loss) before tax	67,549	(196,260)	-115.5%
Order intake (2)	1,106	368,406	-99.7%
Order backlog (1)	637,199	765,438	-16.8%

(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, and exchange differences.

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 26% 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.

The negative EBITDA of €66,247 thousand and portfolio provisions and allowances for risk of subsidiaries of €80,767 thousand de euros arose mainly from the low level of activity, the deviation in certain projects for €97.4 million, restructuring costs of €4.6 million and extraordinary provisions for €55.2 million (related mainly to impairment on receivables in Argentina and Venezuela) and the reversal of provisions for liabilities by Duro Felguera Australia for €38 million.

Order intake for the Group 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, financial debt amounted to €96.9 million, including €8 million related to the Class B Convertible Bonds, which is 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 amounted to €78.6 million.

BUSINESS OUTLOOK

As noted in this section of the management report for the first half, the Company'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 Company 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 Company also added a sales manager, a human resources manager, a financial director, and a contract management director. Two more managers are expected to 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.

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 Company 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 20).

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.

As for the claim against Samsung C&T for the Roy Hill project, on 1 March 2019, the Duro Felguera Australia subsidiary received a final partial ruling by the Singapore International Arbitration Centre (SIAC). This had a positive impact on equity and profit amounting to €38 million as a result of the reversal of the provision for liabilities recognised to cover the subsidiary's negative equity set aside in previous years (Note 20).

As a result of these two factors, the Company recognised a negative impact on profit or loss and the measurement of the portfolio.

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 enabled 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 Company is also involved a series of negotiations and has outstanding claims with come 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 Company 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:

	2018	2017
EBITDA	(66,247)	(78,536)
Working capital	98,433	(159,304)
Net debt	(18,304)	(284,229)

MAIN RISKS AND UNCERTAINTIES

Foreign currency risk

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

To manage the foreign currency risk arising from future commercial transactions and recognised assets and liabilities, the Company uses 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 collection currency.

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 Company'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.

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 Company includes a scaled price review in contracts of this kind pegged to consumer price indices, as in the case of its contract in Venezuela.

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.

Cash flow and fair value interest rate risk

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

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

The Company 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 Company 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.

Credit risk

The Company 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 Company 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 Company's most important projects. The counterparties are mostly state or multinational corporations, operating primarily in the energy and mining industries.

Our main customers represent 84% of "Trade and other receivables" at 31 December 2018 (2017: 60%), relating to operations with the type of institutions indicated above. Accordingly, the Company 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 5) 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 5).

To execute its projects, the Company 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.

NON-FINANCIAL STATEMENT

In accordance with Law 11/2018, of 28 December, and the new wording of article 262(5) of the Code of Commerce, the Company is not required to present a non-financial statement since this information is included in the consolidated management report of the Duro Felguera Group, whose parent is Duro Felguera, S.A., which will be placed on file, together with the consolidated financial statements with the Oviedo Companies Register.

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 18 to the financial statements provides information on the average payment period to suppliers.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 1 March 2019, the Duro Felguera Australia subsidiary 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 Duro Felguera Australia 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 subsidiary cancelled part of the provisions recognised, recognised the portion of interest that is virtually certain as an asset in accordance with the assessment of the Company’s external legal advisers and recognised the related liabilities with third parties, after assessing the related risks, in accordance with the assessment of the Company'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 separate financial statements, with a positive impact on equity and profit of €38 million due to the partial reversal of the provision of liabilities recognised to cover the negative equity of this subsidiary (Note 20). Moreover, during the execution of the Roy Hill project and the arbitration proceeding with Samsung C&T Corporation, the Company incurred approximately €40 million of legal costs, which were recognised as expenses in this and previous years.

The accounting effects of this ruling were recognised in the accompanying separate financial statements, with a positive impact on equity and profit of €38 million due to the partial reversal of the provision of liabilities recognised to cover the negative equity of this subsidiary (Note 20). Moreover, during the execution of the Roy Hill project and the arbitration proceeding with Samsung C&T Corporation, the Company incurred approximately €40 million of legal and internal 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.

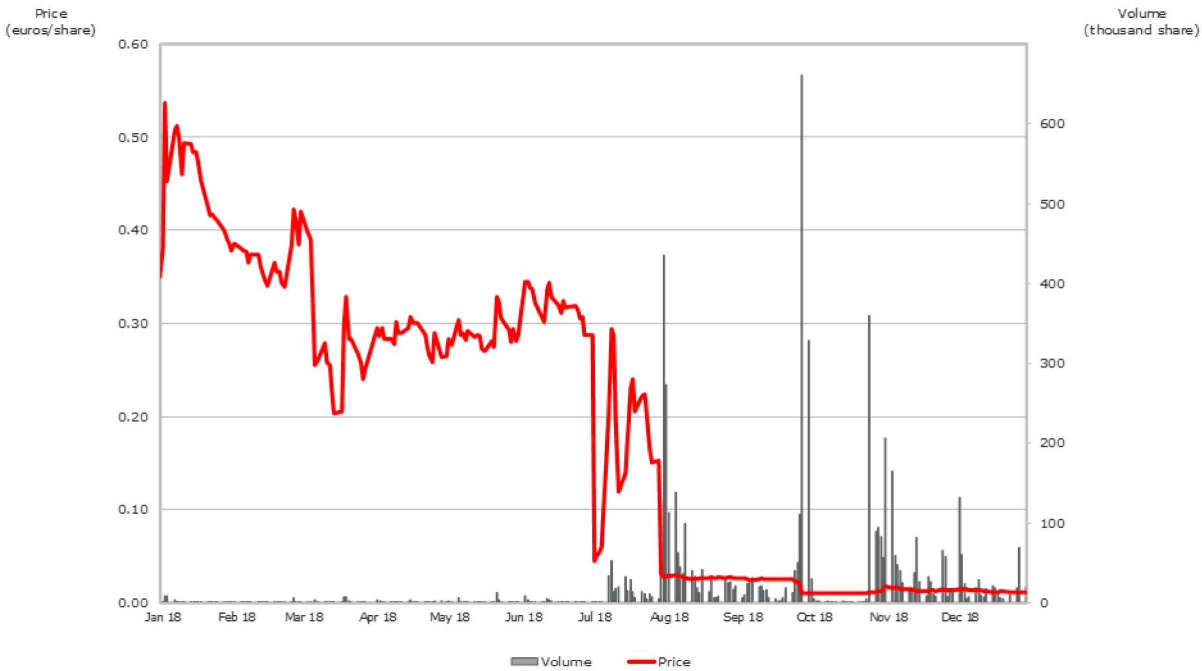
OTHER RELEVANT INFORMATION

Stock market data

The main stock-market data for the Group in 2018 and 2017 are as follows:

	2018	2017
Closing price	0.0115	0.33
Period in the year	-96.52%	-70.54
High (€)	0.598	1.48
Date of high	05/01/2018	17/02/2017
Low (€)	0.0074	0.33
Date of low	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



<u>Dividend policy</u>

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 18) in an amount equal to the dividend to be distributed.

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

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:

	Attendance data				
General Meeting date	% In person	% By proxy	% remote voting		
			Online	Other	Total
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

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 Solis 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 induced 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 *Ley de Sociedades de Capital* [Spanish Companies Act], article 529 *duodecies* (4) (a), a former executive director of a group company cannot qualify as an independent director until five years have elapsed since the cessation of that relationship. Since the cessation took place in November 2018, the statutory period for his qualifying as an independent has not yet elapsed.	DURO FELGUERA, S.A.	Mr Rodríguez holds a degree in Industrial Engineering from the Universidad de León, and an MBA from Instituto de Empresa. He is a member of the Advisory Board of the University of Mississipi in Europe and of the American Management Association. Mr Rodríguez is General Manager-Founder of Unilog Consultores Industriales, which provides consulting on strategy, operations and benchmarking for the steel, metal, energy, industrial, renewable energy and industrial parts industries for institutions, owners and investors from different countries. As industrial consultant for the European Union, he has participated in negotiations between the EU and Slovenia, Russia, Romania, Bulgaria and other countries.

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.l.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 ore 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

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

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 [X]   Explanation [ ]

2. That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:

   a) The activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:

   b) The mechanisms in place to resolve possible conflicts of interest.

   Complies [ ]   Complies partially [ ]   Explanation [ ]   Not applicable [X]

3. During the annual general meeting the Chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company’s corporate governance, supplementing the written information circulated in the Annual Corporate Governance Report. In particular:

   a) Changes taking place since the previous annual general meeting.

   b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

   Complies [X]   Complies partially [ ]   Explanation [ ]

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

   And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

   Complies [X]   Complies partially [ ]   Explanation [ ]

5. That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

   And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.

   Complies [X]   Complies partially [ ]   Explanation [ ]

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

   a) Report on auditor independence.

   b) Reviews of the operation of the Audit Committee and the Nomination and Remuneration Committee.

   c) Audit Committee report on third-party transactions.

   d) Report on corporate social responsibility policy.

   Complies [X]   Complies partially [ ]   Explanation [ ]

7. The company should broadcast its general meetings live on the corporate website.

   Complies [ ]   Explanation [X]

Although at the last General Meeting the percentage of shareholders present was not very high, because the largest shareholder, INVESIONES 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 [X]   Complies partially [ ]   Explanation [ ]

9. That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

   And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

   Complies [X]   Complies partially [ ]   Explanation [ ]

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:

a) Immediately distributes the additions and new proposals.

b) Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.

c) Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.

d) That after the General Shareholders' Meeting, a breakdown of the results of said additions or alternative proposals is communicated.

Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

11. That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establish in advance a general policy of long-term effect regarding such payments.

Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

12. That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.

And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

Complies [X]   Complies partially [ ]   Explanation [ ]

13. That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.

Complies [X]   Complies partially [ ]

14. That the Board of Directors approves a selection policy for directors that:

a) Is concrete and verifiable.

b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.

c) Favours diversity in knowledge, experience and gender.

That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call from the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.

And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.

The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.

Complies [ ] Complies partially [X] Explanation [ ]

There are no selection procedures that are a barrier or could be a barrier to the selection of women directors. When seeking a certain professional profile, the Company takes into consideration the professional profile and only evaluates the profile that is most adequate to the corporate interests, without taking into account the gender of the candidate. 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 [X] Complies partially [ ] Explanation [ ]

16. That the percentage of proprietary directors divided by the number of nonexecutive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.

This criterion may be relaxed:

a) In companies with a high market capitalisation in which interests that are legally considered significant are minimal.

b) In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.

Complies [X]   Explanation [ ]

17. That the number of independent directors represents at least half of the total number of directors.

Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represents at least one third of the total number of directors.

Complies [X]   Explanation [ ]

18. That companies publish and update the following information regarding directors on the company website:

a) Professional profile and biography.

b) Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.

c) Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.

d) The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.

e) Shares held in the company, and any options on the same.

Complies [X]   Complies partially [ ]   Explanation [ ]

19. That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies [ ]   Complies partially [ ]   Explanation [ ]   Not applicable [X]

20. That proprietary directors representing significant shareholders must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.

Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Articles of Association unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public share offer, joint venture or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies [X]   Explanation [ ]

22. That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

And that should a director be indicted or tried for any of the offences set out in company law legislation, the Board of Directors must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her post. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies [X]   Complies partially [ ]   Explanation [ ]

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.

    Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

    This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

    Complies [X]   Complies partially [ ]   Explanation [ ] Not applicable [ ]

24. That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the Board of Directors. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

    Complies [ ]   Complies partially [ ]   Explanation [X]   Not applicable [ ]

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 [X]   Complies partially [ ]   Explanation [ ]

26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items do not originally appear on the agenda.

    Complies [X]   Complies partially [ ]   Explanation [ ]

27. That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.

    Complies [X]   Complies partially [ ]   Explanation [ ]

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.

Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

29. That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company's expense.

Complies [X]   Complies partially [ ]   Explanation [ ]

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require.

Complies [ ]   Explanation [ ]   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 by duly recorded in the minutes.

Complies [X]   Complies partially [ ]   Explanation [ ]

32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies [X]   Complies partially [ ]   Explanation [ ]

33. That the chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out his duties required by law and the Articles of Association, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the company, should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies [X]   Complies partially [ ]   Explanation [ ]

34. That when there is a coordinating director, the Articles of Association or the Board rules should confer upon him the following competencies in addition to those conferred by law: chairman of the Board of Directors in the absence of the chairman and deputy chairmen, should there be any; reflect the concerns of nonexecutive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the chairman.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the company.

Complies [X] Explanation [ ]

36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:

a) The quality and efficiency of the Board of Directors' work.

b) The workings and composition of its committees.

c) Diversity of membership and competence of the Board of Directors.

d) Performance of the chairman of the Board of Directors and the chief executive officer of the company.

e) Performance and input of each director, paying special attention to those in charge of the various Board committees.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies [X] Complies partially [ ] Explanation [ ]

37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.

Complies [ ] Complies partially [ ] Explanation [ ] Not applicable [X]

38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.

Complies [ ] Complies partially [ ] Explanation [ ] Not applicable [X]

39. That the members of the audit committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.

Complies [X] Complies partially [ ] Explanation [ ]

40. That under the supervision of the audit committee, there must be a unit in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive chairman of the Board or of the audit committee.

Complies [X] Complies partially [ ] Explanation [ ]

41. That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

42. That in addition to the provisions of applicable law, the audit committee should be responsible for the following:

1. With regard to information systems and internal control:

   a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.

   b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, reelection and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

   c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.

2. With regard to the external auditor:

   a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.

   b) Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.

   c) Insist that the company file a relevant fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.

   d) Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.

   e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding the auditor's independence.

Complies [X]　　Complies partially [ ]　　Explanation [ ]

43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.

Complies [X]　　Complies partially [ ]　　Explanation [ ]

44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.

Complies [X]   Complies partially [ ]   Explanation [ ]   Not applicable [ ]

45. That the risk management and control policy identify, as a minimum:

a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off balance sheet risks.

b) Fixing of the level of risk the company considers acceptable.

c) Means identified in order to minimise identified risks in the event they transpire.

d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks.

Complies [X]   Complies partially [ ]   Explanation [ ]

46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:

a) Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.

b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.

c) Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.

Complies [ ]   Complies partially [X]   Explanation [ ]

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 [X]

49. That the appointments committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a vacancy on the Board of Directors.

Complies [X] Complies partially [ ] Explanation [ ]

50. That the remuneration committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:

a) Propose basic conditions of employment for senior management.

b) Verify compliance with company remuneration policy.

c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.

d) See that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.

e) Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.

Complies [X] Complies partially [ ] Explanation [ ]

51. That the remuneration committee consults with the chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.

Complies [X] Complies partially [ ] Explanation [ ]

52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:

a) That they are comprised exclusively of non-executive directors, with a majority of them independent.

b) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee's last meeting.

c) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.

d) That their meetings be recorded and the minutes be made available to all directors.

Complies [X] Complies partially [ ] Explanation [ ] Not applicable [ ]

53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organisation, which at least the following responsibilities shall be specifically assigned thereto:

a) Verification of compliance with internal codes of conduct and the company's corporate governance rules.

b) Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.

c) The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.

d) Review of the company's corporate social responsibility policy, ensuring that it is orientated towards value creation.

e) Follow-up of social responsibility strategy and practice, and evaluation of degree of compliance.

f) Supervision and evaluation of the way relations with various stakeholders are handled.

g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.

h) Coordination of the process of reporting on diversity and reporting nonfinancial information in accordance with applicable rules and international benchmarks.

Complies [X]   Complies partially [ ]   Explanation [ ]

54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, as a minimum:

a) The objectives of the corporate social responsibility policy and the development of tools to support it.

b) Corporate strategy related to sustainability, the natural environment and social issues.

c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.

d) Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.

e) Means of supervising non-financial risk, ethics, and business conduct.

f) Communication channels, participation and dialogue with stakeholders.

g) Responsible communication practices that impede the manipulation of data and protect integrity and honour.

Complies [X]   Complies partially [ ]   Explanation [ ]

55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.

Complies [X]   Complies partially [ ]   Explanation [ ]

56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.

Complies [X]   Explanation [ ]

57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares that the director may be obliged sell in order to meet the costs related to their acquisition.

Complies [ ]   Complies partially [ ]   Explanation [X]

Remuneration in the form of shares or share options is provided for in the 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 [X]

63. That contractual arrangements include a clause which permits the company to seek reimbursement of variable remuneration components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.

Complies [ ] Complies partially [ ] Explanation [ ] Not applicable [X]

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 [X]

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

Building a better
working world

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Translation of a report originally issued in Spanish. In the event of discrepancy the Spanish-language version prevails

AUDITOR'S REPORT ON THE "INFORMATION RELATING TO INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR-SCIIF IN SPANISH)" FOR 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.

Domicilio Social: Calle de Raimundo Fernández Villaverde, 65. 28003 Madrid - Inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª. C.I.F. B-78970506.
A member firm of Ernst & Young Global Limited.

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

DURO FELGUERA, S.A.

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 Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow, Notes to the Annual Accounts and Management Report for the year ended 31 December 2018 by all of the members of the Board of Directors, have signed this document approved by the Chairman, which includes this page in the Spanish language version signed by each of the Board Members, whose full names and position are indicated after each 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
Non-voting Secretary