Audit Report on Interim Condensed Consolidated Financial Statements issued by an Independent Auditor.

DURO FELGUERA, S.A. AND SUBSIDIARIES
Interim Condensed Consolidated Financial Statements and Interim Consolidated Management Report for the seven months period ended 31 July 2018.
(Free translation from the original in Spanish)

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Translation of a report and Interim Condensed Consolidated Financial Statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 30)

AUDITOR REPORT ON INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the shareholders of DURO FELGUERA, S.A. at the request of the Board of Directors:

Audit report on the Interim Condensed Consolidated Financial Statements

Opinion

We have audited the Interim Condensed Consolidated Financial Statements of DURO FELGUERA, S.A. (the parent company) and its subsidiaries (the Group), which comprise the consolidated balance sheet at July 31, 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the notes thereto, for the seven months period ended 31 July 2018.

In our opinion, the accompanying Interim Condensed Consolidated Financial Statements give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at July 31, 2018 and of its financial performance and its consolidated cash flows, for the seven months period ended in accordance with International Accounting Standards (IAS 34 - Interim Financial Reporting), as adopted by the European Union in order to issue interim condensed financial statements.

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 Interim Condensed Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the Interim Condensed Consolidated Financial Statements 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Interim Condensed Consolidated Financial Statements of the seven months period ended July 31, 2018. These matters were addressed in the context of our audit of the Interim Condensed Consolidated Financial Statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Financial restructuring, capital increase and application of going concern assumption.

Description	As explained in Notes 2.a and 3.1.c, the parent's directors have prepared the condensed consolidated interim financial statements on a going concern basis, since they consider that the success of the ongoing measures taken during the year guarantee the continuity of the Group's operations. The principal actions disclosed in the aforementioned notes are the refinancing of bank debt as well as the capital increase, both of which were completed in July 2018. 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. As explained in the aforementioned Note 2.a, the parent's directors have prepared a 2018-2022 business plan in which the Group is expected to obtain a positive recurring EBITDA in line with that of other companies in its sector and to generate positive cash flow as of 2020. We consider the evaluation of the causal and mitigating circumstances surrounding the debt in terms of the Group's capacity to continue as a going concern to be a key audit matter given their significance.
Our response	With regard to this matter, our audit procedures included: Reviewing the documents comprising the refinancing agreement to gain an understanding of the transaction, as well the measurement and recognition policies applied to it. Obtaining a valuation of type A and type B convertible bonds prepared by an expert hired by the parent and, with the collaboration of our internal experts, reviewing the valuation applied by the Group to the type A and type B bonds included in the agreement as well as how they were classified for accounting purposes. Evaluating the impact on profit and loss of the refinancing transaction. Evaluating the origin of the data to prepare a business plan, as well as the reasoning behind the principal assumptions. Specifically, we checked that the projected cash flow from operations was based on profit and loss included in the business plan. Discussing the business plan with management to gain an understanding of the strategies on which it is based. Performing a sensitivity analysis on the cash flow scenario of the principal assumptions on which these strategies are based, as well as the generation of cash flows from ordinary operations. Requesting and obtaining written statements from management regarding their future plans of action.

Reviewing the disclosures included in the notes to the accompanying condensed consolidated interim financial statements in conformity with the regulatory framework for financial reporting applicable to the Company.

Recognition of income from construction contracts

Description

As explained in Notes 2 and 4 to the accompanying Interim Condensed Consolidated Financial Statements, revenue from construction contracts are recognized using the stage of completion method, in conformity with the applicable regulatory framework for financial reporting

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

Given the significance of the estimates used in recognizing this revenue and the materiality of the related amounts, we determined this to be a key audit issue.

Our response

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

We gained an understanding of the processes established by the Group's Management for recognizing revenue derived from construction contracts, including evaluation of the design and implementation of relevant controls and their operational effectiveness.

In order to perform substantive tests, we selected a sample of projects, applying qualitative and quantitative criteria, such as identifying relevant contracts, due either to the contract's total sale price, the amount of related revenue or margins recorded in the year or to the risk associated to costs incurred or completion costs.

For the 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 for the related projects.

We reviewed project development with business line and project managers, the reasons for deviations from initially budgeted costs and actual costs, and their impact on re–estimating project margins.

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 Interim Condensed Consolidated Financial Statements related to the recognition of revenue from contracts based on the percentage of completion method were in conformity with the regulatory framework for financial reporting applicable to the Group.

Estimation of impairment losses for the principal past-due receivables

Description	As explained in Note 10 to the Interim Condensed Consolidated Financial Statements for the seven months period ended July 31, 2018, "Trade and other receivables," net of impairmet, amounted to 138 million and 100 million euros, respectively. The estimation of impairment loss on these assets requires significant judgement on the part of Management, the relevant principles and criteria of which are provided in Notes 2 and 4 to the accompanying Interim Condensed Consolidated Financial Statements. The identification of impaired credit exposures and the determination of recoverable amounts are processes subject to the uncertainty inherent in using hypotheses and estimates, e.g., the financial position of the debtor or expected cash flows. As explained in the aforementioned notes, to these amounts, the principal past-due receivables pertain to the Termocentro (Venezuela), Gangavaram Port Limited, Khrisna Port and Tuticorin (India) and Roy Hill (Australia). 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 for the Termocentro (Venezuela), Gangavaram Port Limited, Khrisna Port and Tuticorin (India), and Roy Hill projects (Australia) were the following: We carried out an itemized review of past-due receivables, analyzing the reasonableness of the hypotheses used by Management to identify and quantify impairment. We assessed the financial situation and solvency of debtors. We obtained confirmation from the group's external advisors regarding the ongoing proceedings and their rating of the related risk in order to evaluate the recoverability of the India and Australia projects' past-due receivables under arbitration, as explained in Note 27 to the accompanying Interim Condensed Consolidated Financial Statements. We obtained and analyzed, with the involvement of our internal legal specialists, the information prepared by the Group's external legal advisors in order to evaluate the likelihood of favorable outcomes of arbitration proceedings underway in India and Australia. With regard to the Termocentro project in Venezuela, we obtained confirmation of the balance owed by the customer C.A. Electricidad de Caracas (CDC) and we reviewed the reasonableness of the principal hypotheses used by the Group, 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 Interim Condensed Consolidated Financial Statements. We reviewed disclosures included in the notes to the accompanying Interim Condensed Consolidated Financial Statements

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

Description	We draw your attention to the matter described in Note 27 to the accompanying Interim Condensed Consolidated Financial Statements, which states that on December 14, 2017, the parent company disclosed the receipt of the ruling from Madrid Central Court of Instruction No. 2, allowing the lawsuit filed against Dura Felguera, SA. 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: Understanding and analyzing the current status of the lawsuit filed by the Special Prosecution Office for Corruption and Organized Crime through meetings with company management. Reviewing, as well as updating the review work and conclusions regarding the internal investigation carried out and updated the parent with regard to this matter. Obtaining and analyzing, with the involvement of our legal specialists, the updated legal opinion prepared by the attorney engaged by the parent. Reviewing the disclosures included in the notes to the accompanying condensed consolidated interim financial statements in conformity with the regulatory framework for financial reporting applicable to the Company.

Emphasis of matter paragraph

We draw attention to Note 1.3 to the accompanying Interim Condensed Consolidated Financial Statements, where it is stated that the Interim Condensed Consolidated Financial Statements do not include all the disclosures required in a complete set of consolidated interim financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union, and therefore should be read in conjunction with the Group's consolidated annual financial statements for the year ended December 31, 2017. Our opinion was not modified with respect to this matter.

Other information: interim consolidated management report

Other information refers exclusively to the interim consolidated management report for the seven months period ended July 31, 2018, the preparation of which is the responsibility of the parent company's directors and is not an integral part of the Interim Condensed Consolidated Financial Statements.

Our audit opinion on the Interim Condensed Consolidated Financial Statements does not cover the interim consolidated management report. Our responsibility for the information contained in the interim consolidated management report is defined in prevailing audit regulations, and requires us to evaluate and report on the consistency of said information in the Interim Condensed Consolidated Financial Statements, based on our knowledge of the Group obtained during the audit, and limited to the information gained through audit evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described in the above paragraph, the information contained in the interim consolidated management report is consistent with that provided in the Interim Condensed Consolidated Financial Statements for the seven months period ended July 31, 2018, and their content and presentation are in conformity with applicable regulations.

Responsibilities of the parent company`s directors and the Audit and Compliance Committee for the Interim Condensed Consolidated Financial Statements

The directors of the parent company are responsible for the preparation of the accompanying Interim Condensed Consolidated Financial Statements in accordance with International Accounting Standards (IAS 34), as adopted by the European Union in order to issue interim condensed financial statements, and for such internal control as they determine is necessary to enable the preparation of Interim Condensed Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

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

The Audit and Compliance Committee is responsible for overseeing the preparation and presentation of the Interim Condensed Consolidated Financial Statements.

Auditor´s responsibilities for the Audit of the Interim Condensed Consolidated Financial Statements

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

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

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

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

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

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

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

Evaluate the overall presentation, structure and content of the Interim Condensed Consolidated Financial Statements, including the disclosures, and whether the Interim Condensed Consolidated Financial Statements represent the underlying transactions and events according to International Accounting Standards (IAS 34).

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

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

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

From the matters communicated with the Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the Interim Condensed Consolidated Financial Statements of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

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 on the original version in Spanish)

José Enrique Quijada Casillas

October 24, 2018

DURO FELGUERA, S.A. AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements
and Consolidated Management Report
for the seven-month period ended 31 July 2018

DURO FELGUERA, S.A. AND SUBSIDIARIES

CONTENTS OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 JULY 2018

DURO FELGUERA, S.A. AND SUBSIDIARIES

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

ASSETS	**Note**	**At 31 July 2018**	**At 31 December 2017**
Property, plant and equipment	**7**	48,127	76,697
Investment properties	**8**	27,160	27,400
Intangible assets	**9**	17,578	19,174
Investments in associates		4,772	20
Available-for-sale financial assets	**10**	4,536	5,590
Loans and other receivables	**10-11**	938	413
Deferred tax assets	**19**	42,878	11,032
NON-CURRENT ASSETS		**145,989**	**140,326**
Non-current assets held for sale	**6**	4,512	27,395
Inventories		15,254	22,196
Trade and other receivables	**10-11**	452,960	473,724
Financial receivables	**10**	18	16
Derivative financial instruments	**10**	-	1,052
Current tax assets		2,729	3,412
Cash and cash equivalents	**12**	157,301	90,579
CURRENT ASSETS		**632,774**	**618,374**
TOTAL ASSETS		**778,763**	**758,700**

The accompanying explanatory notes 1 to 30 are an integral part of the interim condensed consolidated financial statements.

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

EQUITY AND LIABILITIES	Note	At 31 July 2018	At 31 December 2017
Share capital	**13**	48,000	80,000
Share premium	**13**	79,152	-
Accumulated exchange differences		(2,286)	(10,603)
Retained earnings and other reserves	**15**	(11,984)	(220,436)
Convertible bonds	**17**	8,093	-
EQUITY ATTRIBUTABLE TO SHAREHOLDERS		**120,975**	**(151,039)**
Non-controlling interests		(19,891)	(13,807)
EQUITY		**101,084**	**(164,846)**
DEFERRED INCOME		**4,593**	**6,631**
Borrowings	**10-17**	101,405	74,256
Deferred tax liabilities	**19**	44,750	13,751
Employee benefits		1,366	1,437
Provisions for other liabilities and charges	**20**	11	1,956
NON-CURRENT LIABILITIES		**147,532**	**91,400**
Liabilities associated with non-current assets held for sale	**6**	-	20,861
Borrowings	**10-17**	9,842	268,393
Derivative financial instruments	**10**	-	2
Trade and other payables	**10-18**	392,847	418,168
Current tax liabilities		2,137	2,229
Employee benefits		7,389	7,742
Provisions for other liabilities and charges	**20**	113,339	108,120
CURRENT LIABILITIES		**525,554**	**825,515**
TOTAL EQUITY AND LIABILITIES		**778,763**	**758,700**

The accompanying explanatory notes 1 to 30 are an integral part of the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SEVEN-MONTH PERIOD ENDED 31 JULY 2018 AND 2017
(€ thousand)

	Note	Seven-month period ended 31 July 2018	Seven-month period ended 31 July 2017 (Unaudited)
Revenue	**5**	255,594	405,942
Changes in inventories of finished goods and work in progress		455	4,615
Cost of sales		(179,881)	(268,335)
Gross profit		**76,168**	**142,222**
Employee benefits expense		(61,543)	(81,741)
Amortisation and depreciation	**7-8-9**	(5,100)	(6,806)
Operating expenses		(50,264)	(66,297)
Other gains/(losses) net		(16,686)	13,117
Operating profit/(loss)		**(57,425)**	**495**
Net finance income/(cost)	**21**	203,186	(13,804)
Impairment of financial instruments		(3,112)	124
Share of loss/(profit) of associates		-	(140)
Profit/(loss) before tax		**142,649**	**(13,325)**
Income tax expense	**22**	(339)	(35)
Profit/(loss) for the period from continuing operations		**142,310**	**(13,360)**
Attributable to:			
Shareholders of the company		150,194	(11,619)
Non-controlling interests		(7,884)	(1,741)
		142,310	**(13,360)**
Earnings/(loss) per share for the period from continuing operations attributable to shareholders of the company (€ per share)			
- Basic	**23**	0.90	(0.08)
- Diluted	**23**	0.90	(0.08)

The accompanying explanatory notes 1 to 30 are an integral part of the interim condensed consolidated financial statements.

DURO FELGUERA, S.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SEVEN-MONTH PERIOD ENDED 31 JULY 2018 AND 2017
(€ thousand)

	Note	Seven-month period ended 31 July 2018	Seven-month period ended 31 July 2017 (Unaudited)
Profit/(loss) for the period	**Note**	**142,310**	**(13,360)**
Other comprehensive income			
Items that will not be reclassified to profit or loss		(10,492)	(10,399)
Other comprehensive income not to be reclassified to profit or loss		(9,581)	(10,399)
Income tax relating to items that will not be reclassified		(911)	-
Items that may be reclassified to profit or loss		3,047	7,940
Changes in the fair value available-for-sale financial assets		(740)	1,034
Cash flow hedges		(1,049)	7,688
Currency translation differences		4,389	1,520
Income tax relating to items that may be reclassified to profit or loss	**19**	447	(2,302)
Other comprehensive income for the period, net of tax		**(7,445)**	**(2,459)**
Total comprehensive income for the period		**134,865**	**(15,819)**
Attributable to:			
- Shareholders of the company		142,342	(14,494)
- Non-controlling interests		(7,477)	(1,325)
		134,865	**(15,819)**
Total comprehensive income for the period attributable to shareholders of the company from			
• Continuing operations		142,342	(14,494)

The accompanying explanatory notes 1 to 30 are an integral part of the interim condensed consolidated financial statements.

DURO FELGUERA, S.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SEVEN-MONTH PERIOD ENDED 31 JULY 2018 AND 2017
(€ thousand)

		Equity attributable to owners of the parent								
	Note	**Capital**	**Share premium**	**Legal reserve, other reserves and retained earnings (1)**	**Treasury shares**	**Profit/(loss) attributed to the parent**	**Other equity instruments**	**Valuation adjustments and translation differences**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2017		**80,000**	**-**	**159,859**	**(87,719)**	**(18,197)**	**-**	**(16,443)**	**3,671**	**121,171**
Profit/(loss) for the period		-	-	-	-	(11,619)	-		(1,741)	(13,360)
Other comprehensive income		-	-	-	-	-	-	(2,876)	417	(2,459)
Total comprehensive income		**-**	**-**	**-**	**-**	**(11,619)**	**-**	**(2,876)**	**(1,324)**	**(15,819)**
Distribution of dividends		-	-	-	-	-	-	-	(14)	(14)
Transfers between equity items		-	-	(18,197)	-	18,197	-	-	-	-
Other changes		-	-	(488)	-	-	-	-	(208)	(696)
Balance at 31 July 2017 (unaudited)		**80,000**	**-**	**141,174**	**(87,719)**	**(11,619)**	**-**	**(19,319)**	**2,125**	**(104,642)**
Balance at 1 January 2018		**80,000**	**-**	**137,802**	**(87,719)**	**(254,496)**	**-**	**(26,626)**	**(13,807)**	**(164,846)**
Profit/(loss) for the period		-	-	-	-	150,194	-	-	(7,884)	142,310
Other comprehensive income		-	-	(1,601)	-	-	-	(6,251)	407	(7,445)
Total comprehensive income		**-**	**-**	**(1,601)**	**-**	**150,194**	**-**	**(6,251)**	**(7,477)**	**134,865**
Capital increases/reductions (Note 13)		(24,000)	79,152	70,560	-	-	-	-	-	125,712
Cancellation of treasury shares (Note 13)		(8,000)	-	(79,719)	87,719	-	-	-	-	-
Conversion of financial liabilities into convertible bonds (Note 17)		-	-	-	-	-	8,093	-	-	8,093
Distribution of dividends		-	-	-	-	-	-	-	(82)	(82)
Other transactions with equity holders or owners		-	-	-	-	-	-	-	907	907
Transfers between equity items		-	-	(254,496)	-	254,496	-	-	-	-
Other changes		-	-	(4,133)	-	-	-	-	568	(3,565)
Balance at 31 July 2018		**48,000**	**79,152**	**(131,587)**	**-**	**150,194**	**8,093**	**(32,877)**	**(19,891)**	**101,084**

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

The accompanying explanatory notes 1 to 30 are an integral part of the interim condensed consolidated financial statements.

DURO FELGUERA, S.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SEVEN-MONTH PERIOD ENDED 31 JULY 2018
(€ thousand)

	Seven-month period ended 31 July 2018	Seven-month period ended 31 July 2017 (Unaudited)
Cash flows from operating activities		
Profit/(loss) before tax	142,649	(13,325)
Adjustments for depreciation and amortisation	5,100	6,806
Other adjustments to profit/(loss):	(187,285)	(4,966)
Changes in operating assets and liabilities	(23,446)	(18,188)
Interest paid	(6,388)	(6,528)
Income tax received/(paid)	-	-
Net cash flows used in operating activities	**(69,370)**	**(36,201)**
Cash flows from investing activities		
Payments for investments		
Property, plant and equipment, intangible assets and investment properties	(706)	(1,486)
Proceeds from sale of investments		
Property, plant and equipment, intangible assets and investment properties	26,877	-
Other financial assets	653	6,165
Other assets	64	-
Cash flows from investing activities		
Interest and dividends received	836	501
Net cash flows from investing activities	**27,724**	**5,180**
Cash flows from financing activities		
Proceeds from (and payments for) equity instruments		
Issue of equity instruments	125,712	-
Proceeds from and payments for financial liability instruments		
Issue	1,101	7,207
Redemption and repayment	(24,329)	(25,972)
Other cash flows from financing activities		
Other proceeds from/(payments for) financing activities	-	2,443
Net cash flows from/(used) in financing activities	**102,484**	**(16,322)**
Net foreign exchange difference	**(155)**	**(6,480)**
Impact of Argentina's consideration as a hyperinflation economy. Loss of purchasing power.	**6,039**	**-**
Net increase/(decrease) in cash and cash equivalents	**66,722**	**(53,823)**
Cash and cash equivalents at beginning of period	**90,579**	**152,397**
Cash and cash equivalents at end of period	**157,301**	**98,574**
Components of cash and cash equivalents at end of period		
Cash and banks	146,200	67,831
Other financial assets	11,101	30,743
Total cash and cash equivalents at end of period	**157,301**	**98,574**

The accompanying explanatory notes 1 to 30 are an integral part of the interim condensed consolidated financial statements.

1. General information

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

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

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

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

The accompanying interim condensed consolidated financial statements of the Duro Felguera Group for the seven-month period ended 31 July 2018 were prepared in accordance with IAS 34 *Interim Financial Reporting* and authorised for issue by the Board of Directors on 24 October 2018.

2. Basis of presentation and other information

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

a) Basis of presentation and accounting policies

The accompanying interim condensed consolidated financial statements for the seven-month period ended 31 July 2018 were prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the financial statements for the year ended 31 December 2017 prepared in accordance with EU-IFRS.

The Group has not early adopted any standard or amendment that is not effective.

The amounts in the accompanying interim condensed consolidated financial statements are in thousands of euros (€), unless stated otherwise.

For comparative purposes, the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the seven-month period ended 31 July 2017. The condensed consolidated balance sheet at 31 July 2018 contains information at 31 December 2017.

Going concern assumption

As explained in the 2017 annual consolidated financial statements, at the end of last year the parent company was in the process of restructuring its financial debt, while at the same time searching for prospective investors in a capital increase of up to €125 million. As explained in Notes 13 and 17, both processes concluded favourably on 27 July 2018 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 of 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 B Convertible Bonds”) with a maximum duration of five years and cancellation upon expiry if they are not converted. On 31 July 2018, the issue of Class B Convertible Bonds entailing the issuance of 14,227,267,955 bonds was placed on file with the Asturias Companies Register. These bonds can be converted as of the second year from the effective date and only when the Company’s stock market capitalisation (calculated by multiplying (i) the total number of the Company’s ordinary shares by the (ii) volume weighted average price (VWAP) of the Company’s shares over the six months immediately prior to the related conversion window) exceeds €236,000 thousand . They will be redeemed at maturity without any consideration to the holders of the convertible bonds. Conversion of these convertible bonds is limited to a combined conversion of up to 29% of the Company’s share capital post-conversion.

These conversions, at their effective date, resulted in the cancellation of the original financial liability for €233,009 thousand and, based on the valuation by an independent expert, the recognition of an equity instrument for the Class A Convertible Bonds for €8,093 thousand, and the recognition of a debt instrument at the fair value of the Class B Convertible Bonds for €8,069 thousand. This resulted in a positive impact on the net financial result from the effective date of €214,942 thousand (Note 21), 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 must be guaranteed by an insurance company, export credit agency or equivalent entity (for at least 50% of the nominal amount of the bond).

Execution of the two processes has:

- improved the Company's liquidity (Note 3.1 c) and working capital position with the €125 million cash inflow from the capital increase, the €225 million reduction of the financial liability and the €85 million restructuring of remaining long-term financial liability. As a result, the consolidated liquidity reserve (Note 3.1 c) has gone from a negative €271.4 million at 31 December 2017 to a positive €46.4 million, while consolidated working capital has gone from a negative €207.1 million to a positive €107.2 million.

- restored equity with the €125 million capital increase, with recognition of an equity instrument for €8.1 million, a debt instrument for €8.1 million and the positive impact on the financial result of the rest of the conversion of the convertible bonds for €215 million. As a result, Group equity went from a negative €164.8 million at 31 December 2017 to a positive €101.1 million. The parent company's equity went from a negative €181.1 million to a positive €88.7 million.

The Company's business plan was drawn up from a conservative view, based on the early months of execution of existing projects and cost savings, and the subsequent rebound by order intake in the medium term. The main assumptions of the plan are:

- recurring and positive EBITDA, in line with the industry average from 2020
- savings and efficiency in overheads of 20% in 2019 and 2020
- gradual intake of new projects with a material impact on the Company's activity in the second half of 2019
- positive and recurring cash flow generation from 2020
- no major disposals planned beyond those already carried out

Base on this and since the condition of hedging the risk of enforcing the bonds is expected to be fulfilled in the short term, the parent company's directors have prepared the interim condensed consolidated financial statements at 31 July 2018 on a going concern basis.

Accounting policies

Except where indicated otherwise below, the accounting policies used are the same as those applied in the 2017 annual consolidated financial statements.

a) Mandatory standards, amendments and interpretations applicable to annual periods beginning on or after 1 January 2018.

- **IFRS 15 *Revenue from Contracts with Customers* and Clarifications to IFRS 15 *Revenue from Contracts with Customers*:**

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

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

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

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

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

The Group's core business is the execution, on behalf of customers, of major turnkey industrial projects around the world. Duro Felguera also provides specialised engineering, assembly and heavy industrial machinery and equipment maintenance services.

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

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

a) Sale of goods

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

b) Rendering of services

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

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

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

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

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

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

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

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

(i) Variable consideration

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

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

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

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

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

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

(ii) Warranty obligations

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

c) Advances received from customers

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

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

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

d) Costs incurred to obtain or fulfil a contract

Costs related to the presentation of bids for construction contracts in Spain and abroad are expensed in the income statement when incurred, when it is not probable or certain that the contract will be awarded to the Company. This is largely consistent with the current approach.

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

- **IFRS 9 *Financial Instruments***

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

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

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

a) Classification and measurement

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

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

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

b) Impairment

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

c) Hedge accounting

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

d) Debt restructuring

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

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

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

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

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

- **IFRS 16 *Leases***

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

The new standard will replace the current IAS 17 *Leases*, interpretation IFRIC 4 *Determining whether an Arrangement contains a Lease*, interpretation SIC-15 *Operating Leases-Incentives* and interpretation SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.
IFRS 16 establishes a single on-balance sheet model for lease accounting. A lessee recognises the right to use the underlying asset and a liability to make lease payments. The standard includes two exemptions recognising rights of use in lessee accounting: leases for which the underlying asset is of low value and short-term leases (i.e., leases with a lease term of 12 months or less).

In 2018, the Group has continued to assess the potential impact on its consolidated financial statements and has elected not to early adopt IFRS 16.

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

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

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

At the date of preparation of the financial statements for the seven-month period ended 31 July 2018, the IASB and IFRIC had issued the following standards, amendments and interpretations that are pending adoption by the European Union:

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

IFRS 17 *Insurance Contracts*

IFRIC 23 *Uncertainty over Income Tax Treatments*

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

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

Annual improvements to IFRS Standards 2015 - 2017 Cycle

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

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

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

b) Basis of consolidation

The principles, criteria and methods of consolidation used in the preparation of the accompanying interim condensed consolidated financial statements are consistent with those used in the Group's 2017 annual consolidated financial statements.

The main movements in the scope of consolidation in the seven-month period ended 31 July 2018 are presented in the table below:

There have been no additions to the scope of consolidation in 2018.

	Disposals
GROUP	
	Eólica del Principado, S.A.
	Núcleo de Comunicaciones y Control, S.L.U.
	Núcleo Seguridad S.A.U.
	Núcleo Sistemas Inteligentes México, S.A. de C.V.
	Núcleo Chile, S.A.
	Núcleo India Pvt. Ltd
	Núcleo Maroc, SARL
	Duro Felguera Rail, S.A. U.

	Disposals
UTEs	UTE Suministros Ferroviarios 2006
	UTE Programa 2010
	UTE Suministros aparatos de vía 2010-2012
	UTE Fabrides Cuadruplicación
	UTE Fabrides Olmedo-Zamora-Pedralba Fase I
	UTE Fabrides Venta de Baños Burgos AV FI
	UTE Fabrides Desvios Mixtos Corredor del Mediterráneo
	UTE Fabrides Valladolid Palencia Leon AV FI
	UTE Fabrides Monforte del CID Murcia FASE I
	UTE Fabrides Antequera-Granada FASE I
	UTE Fabrides Haramain
	UTE DF SUMINISTROS FERROVIARIOS
	UTE CELT EL PRAT
	UTE Ineco-Page-Defex Inepade
	UTE Núcleo Tecosa II
	UTE Page Ibérica Sampol Málaga
	UTE Hidrosur
	UTE Núcleo Ingenia Málaga
	UTE Núcleo Avanzit
	UTE Núcleo-Ingenia Alicante
	UTE Núcleo Ingenia Fuerteventura
	UTE Groupement GE DF NUCLEO COBRA (Libreville)
	GROUPEMENT NUCLEO MCE-SA/VINCI

The impact of these changes in the consolidation scope on equity and consolidated profit or loss for the seven-month period ended 31 July 2018 was not significant.

(€ thousand)

Changes in the Group's consolidation scope in the seven-month period ended 31 July 2017 were as follows:

	Disposals
GROUP	Duro Felguera UK, Ltd.
ASSOCIATES	Secicar, S.A.

c) Foreign currency translation

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

To determine the existence of hyperinflation, the Group assesses the qualitative characteristics of the economic environment of the country, as well as the trends in inflation rates over the previous three years. The financial statements of companies whose functional currency is the currency of a hyperinflationary economy are restated to reflect changes in purchasing power of the local currency, such that all items of the 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 2 d), Argentina was classified as a hyperinflationary economy in 2018. The inflation rates used (IPIM: internal wholesale price index) to prepare restated information are published by the INDEC, based on the following indices.

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

d) Hyperinflationary economies

Argentina

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

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

- No restatement of the 2017 figures.

- Adjustment of the historical cost of the non-monetary assets and liabilities and the various items of equity of these companies from the date of acquisition or inclusion in the consolidated statement of financial position to the end of the reporting period to reflect the changes in the purchasing power of the currency caused by inflation. The cumulative impact of the accounting restatement to adjust for the effects of hyperinflation in periods prior to 2018 is shown in translation differences at the beginning of 2018.

- Adjustment of the income statement to reflect the financial loss caused by the impact of inflation in the year on net monetary assets (loss of purchasing power).

- Adjustments of the various items of the statement of cash flows by the general inflation index from the dates they arose, with a balancing entry in net financial results and an offsetting item in the statement of cash flows, respectively.

- Translation of all components of the financial statements of Argentine companies at the closing exchange rate, which at 31 July 2018 was 32.09 Argentine pesos per euro.

The main impacts on the Duro Felguera Group's interim condensed consolidated financial statements for the seven-month period ended 31 July 2018 arising from the above are as follows:

	€ thousand
Revenue	1,825
Operating profit/(loss)	143
Profit/(loss) for the period from continuing operations	(5,895)
Accumulated exchange differences	4,335
Impact on equity	(1,560)

3. Financial risk management

3.1. Financial risk factors

a) Market risk

(i) Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk on transactions in foreign currencies, mainly the US dollar (USD) and Australian dollar (AUD), and to a lesser extent, local currencies in emerging countries, the most important of which at present are the Argentine peso (ARP) and Indian rupee (INR). Foreign currency risk arises on future commercial transactions, recognised assets and recognised liabilities.

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

- Most contracts are arranged in "multi-currency", separating the selling price in the various currencies from the expected costs and maintaining the expected margins in euros.
- Financing of working capital relating to each project is denominated in the 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 Group's risk management policy is to hedge most of the forecast transactions over the life of each project. However, the operating units are responsible for taking decisions on arranging hedges, using external forward foreign currency contracts, with the involvement of the Group's Treasury Department.

At 31 July 2018, if the euro had weakened by 5% against the USD, with all other variables held constant, post-tax profit for the period would have been €1,667 thousand higher (2017: €628 thousand lower), whereas if it had strengthened by 5%, post-profit for the period would have been €1,508 thousand lower (2017: €568 thousand higher), mainly as a result of foreign exchange gains/losses on translation to USD of trade and other receivables, cash, suppliers and advances from customers, as well as the impact on the final outcome of projects of the amounts of future revenues and expenses in US dollars, and the effect of the stage of completion at the period-end.

At 31 July 2018, if the euro had weakened by 5% against the AUD, with all other variables held constant, post-tax profit for the period would have been €3,407 thousand higher (2017: €3,570 thousand), whereas if it had strengthened by 5%, post-profit for the period would have been €3,083 thousand lower (2017: €3,230 thousand), mainly as a result of foreign exchange gains/losses on translation to AUD of trade and other receivables, cash, suppliers and advances from customers, as well as the impact on the final outcome of projects of the amounts of future revenues and expenses in Australian dollars, and the effect of the stage of completion at the period-end.

(ii) Price risk

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

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

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

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

(iii) Cash flow and fair value interest rate risk

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

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

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

Based on the simulations performed, the impact on profit or loss of a 10 basis point shift would a decrease of €555 thousand (2017: €-255 thousand).

b) Credit risk

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

- Assets arising from derivative financial instruments and sundry balances included in cash and cash equivalents (Note 12).
- 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 Group also has policies in place to limit the amount of risk held with respect to any financial institution.

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

Our main customers represent 54% of "Trade and other receivables" at 31 July 2018 (2017: 57%), relating to operations with the type of institutions indicated above. Accordingly, the Group considers that credit risk is extremely limited. In addition to the analysis performed before entering into a contract, the overall position of "Trade and other receivables" is monitored on an ongoing basis, while the most significant exposures (including the type of entities mentioned earlier) are monitored individually.

(€ thousand)

The balance in trade receivables past due but not impaired at 31 July 2018 was €106,200 thousand (2017: €98,417 thousand).

c) Liquidity risk

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

Management monitors the forecasts for the Group's liquidity reserves based on estimated cash flows. The Group has credit lines that offer additional support to its liquidity position.

Following the completion of the financial restructuring and capital increase explained in Note 2, liquidity risk has decreased considerably, thanks to:

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

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

	31/07/2018	31/12/2017
Borrowings and derivatives (Notes 6 and 17)	(111,247)	(362,460)
Less: Cash and cash equivalents (Note 12)	157,301	90,579
Net cash position	46,054	(271,881)
Undrawn credit lines (Note 17)	300	456
Total liquidity reserves	**46,354**	**(271,425)**

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

At 31 July 2018	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
Loans and finance lease liabilities (Note 17)	9,842	2,055	97,745	1,605
Trade and other payables (Note 18)	392,847	-	-	-

At 31 December 2017	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
Loans and finance lease liabilities (Notes 6 and 17)	289,254	67,133	5,307	1,816
Trade and other payables (Note 18)	418,168	-	-	-

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

3.2. Capital risk management

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

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

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

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

	31/07/2018	**31/12/2017**
Borrowings and derivatives (Notes 6 and 17)	(111,247)	(362,460)
Less: Cash and cash equivalents (Note 13)	157,301	90,579
Net debt	46,054	(271,881)
Equity	101,084	(164,846)
Total capital	**55,030**	**107,035**
Gearing ratio	**-83.69%**	**254.01%**

(€ thousand)

3.3. Fair value estimation

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

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

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

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets:				
- Equity securities	2	4,534	-	4,536
Hedging derivatives	-	-	-	-
Total assets	**2**	**4,534**	**-**	**4,536**
Liabilities				
Liabilities at fair value through profit or loss:				
- Convertible bonds	-	8,069	-	8,069
Hedging derivatives	-	-	-	-
Total liabilities	**-**	**8,069**	**-**	**8,069**

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

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets:				
- Equity securities	3	5,587	-	5,590
Hedging derivatives	-	1,052	-	1,052
Total assets	**3**	**6,639**	**-**	**6,642**
Liabilities				
Liabilities at fair value through profit or loss:				
- Trading derivatives	-	-	-	-
Hedging derivatives	-	2	-	2
Total liabilities	**-**	**2**	**-**	**2**

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

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

It is presumed that the carrying amount of receivables and payables, less the provision for impairment, is similar to fair value. The fair value of financial liabilities for financial reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The difference between fair value and amortised cost is not significant.

4. Accounting estimates and judgements

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

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

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

a) Warranty claims

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

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

b) Estimated impairment of goodwill

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

c) Litigation

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

d) Income tax and deferred tax assets

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

If changes in the judgements used by management in determining the final results caused a change of 10% in the effective rate (Note 22), this would result in an increase/decrease of €34 thousand in the income tax liability (at 31 July 2017: €3 thousand).

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

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

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

f) Receivables and financial assets

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

g) Revenue recognition

The Group recognises revenue based on the percentage-of-completion method. The stage of completion is calculated as the portion that contract costs incurred bear to the estimated total contract costs. This revenue recognition method is applied only when the outcome of the contract can be estimated reliably and it is probable that the contract will be profitable. When the outcome of the contract cannot be estimated reliably, contract revenue is recognised only to the extent of the recovery of the costs. When it is probable that contract costs will exceed contract revenue, the loss is recognised as an expense immediately. In using the percentage-of-completion method, the Group makes significant estimates regarding the total costs necessary to fulfil the contract. These estimates are reviewed and assessed regularly in order to verify if a loss has been generated and if the percentage-of-completion method can continue to be applied, or it is necessary to re-estimate the expected margin on the project.

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

The Company's service contracts general include penalty clauses for delays or other reasons, and occasionally discounts, which vary from contract to contract. At 31 July 2018 the Group recorded a provision for penalties of €5,410 thousand (31 December 2017: €5,558 thousand).

Regarding the Vuelta de Obligado project, the Group recognised claims at 31 July 2018 included in the selling price amounting to €48.2 million, related to ARP 430 million plus interest at Banco de la Nación Argentina's asset rate of 24.66%. At 31 December 2017, the amount recognised was €47.3 million, updated by the interest for the year at this interest rate. The total amount of claims submitted at the closing rate was €92.1 million (ARP 2,957 million).

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 November 2018. No progress has been made in negotiations with the customer to date. If no agreement is reached, the arbitration will continue until its conclusion. The external and internal legal advisors consider that DF will be successful in its claim considering enforcement of the contract and applicable Argentine legislation in similar cases, since the events that gave rise to the cost overrun of the project could not be foreseen by DF Argentina or avoided. DF Argentina attempted to minimise the extra costs and do what it could to proceed with the project in order to fulfil its contractual obligations.

At 31 July 2018, the only balance with the customer was €21,303 thousand for completed work pending certification, with 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 €14.2 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, 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, the customer confirmed receipt of the claim and its assessment.

According to IFRS 15, the claim regarding term was received. As for cost, the amount to be recognised is under debate, although the amounts recognised by the Company related to the contractual rights and performance obligations, so the rights and obligations created are considered enforceable. The Company is in advanced talks with the customer over the amount of the claim, although written approval has yet to be received.

At 31 July 2018, invoiced amounts receivable from Djelfa amounted to €4,766 thousand, of which €4,398 thousand have been collected to date.

5. Segment information

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

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

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

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

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

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

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

Finally, left from the former business approach, the Group has three production workshops, grouped into the Manufacturing segment herein. This line operates in railways, making tunnel frames, pressure vessels, heavy boilers and research laboratory equipment.

Segment information provided to the Board of Directors for the reported segments at 31 July 2018 is as follows:

	€ thousand							
	Energy	**Mining & Handling**	**Oil & Gas**	**Specialised Services**	**Manufacturing**	**Other**	**Inter-group transactions**	**GROUP**
Revenue from external customers	95,455	60,849	31,202	44,114	15,268	8,706	-	255,594
Inter-segment revenue	676	994	11	5,204	701	13,546	(21,132)	-
Total revenue	96,131	61,843	31,213	49,318	15,969	22,252	(21,132)	255,594
Finance income (Note 21)	305	101	118	93	1	215,160	-	215,778
Interest expense (Note 21)	(2,633)	(848)	(10)	(88)	(110)	(8,738)	-	(12,427)
Exchange differences (Note 21)	882	(194)	(159)	(1,021)	(36)	373	-	(155)
EBITDA	(28,168)	(1,909)	(18,912)	226	(497)	(3,220)	-	(52,480)
Profit/(loss) before tax	(30,564)	(2,698)	(19,282)	59	(6,868)	202,002	-	142,649

Unaudited segment information at 31 July 2017 is as follows:

	€ thousand							
	Energy	**Mining & Handling**	**Oil & Gas**	**Specialised Services**	**Manufacturing**	**Other**	**Inter-group transactions**	**GROUP**
Revenue from external customers	169,844	51,890	43,517	94,461	33,428	12,802	-	405,942
Inter-segment revenue	206	103	1,215	6,438	-	20,700	(28,662)	-
Total revenue	170,050	51,993	44,732	100,899	33,428	33,502	(28,662)	405,942
Interest income (Note 21)	169	175	117	18	5	16	-	500
Interest expense (Note 21)	(2,730)	(117)	5	(42)	(191)	(3,453)	-	(6,528)
Exchange differences (Note 21)	(1,317)	(898)	429	(2,185)	(950)	(1,558)	-	(6,479)
EBITDA	3	1,417	989	5,515	(2,678)	(4,274)	-	972
Profit/(loss) before tax	(2,682)	1,420	(824)	5,258	(4,949)	(11,548)	-	(13,325)

The amounts included in “Other” relate to income and/or expenses related to companies not allocated to any business area, mainly corporate activities, which includes the finance income/(expense) of the financial debt restructuring, and engineering and systems integration in civil communications sectors, aeronautics and shipping, security and defence, and industrial, energy and environmental control.

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

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

	€ thousand	
	31/07/2018	31/07/2017 (Unaudited)
Operating profit/(loss)	(57,425)	495
Depreciation and amortisation (Notes 7, 8 and 9)	5,100	6,806
Impairment and losses	-	151
Exchange differences (Note 21)	(155)	(6,480)
Net carrying amount	**(52,480)**	**972**

Transfers or transactions between segments are carried out under the normal business terms and conditions that should also be available to unrelated third parties.

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

	€ thousand			
Geographical area	**31/07/2018**	**%**	**31/07/2017 (Unaudited)**	**%**
- Spain	25,867	10.12%	39,961	9.84%
- Latin America	89,990	35.21%	200,342	49.35%
- Europe	81,473	31.88%	61,032	15.04%
- Africa and the Middle East	49,000	19.17%	86,895	21.41%
- Asia Pacific	4,828	1.89%	15,684	3.86%
- Other	4,436	1.74%	2,028	0.50%
Total	**255,594**	**100%**	**405,942**	**100%**

In the seven-month period ended 31 July 2018, the Energy segment recorded sales totalling €42 million with one customer that, individually, represented over 10% of the Group's revenue (31 July 2017: sales of €44.3 million with a customer which, individually represented over 10% of the Group's revenue). No sales were recorded from any customer in the Services segment that, individually, represented over 10% of the Group's revenue (31 July 2017: sales of €52.6 million with a customer which, individually represented over 10% of the Group's revenue).

Revenue from significant external customers in Algeria, Argentina, Mexico, Romania and Spain in the seven-month period ended 31 July 2018 amounted to €34.8 million, €27.6 million, €36.1 million, €42 million and €25.9 million, respectively (31 July 2017: €52.2 million, €44.3 million and €77.7 million in Algeria, Mexico and Argentina, respectively).

6. Assets and liabilities classified as held for sale

	€ thousand	
	31/07/2018	31/12/2017
Assets		
Property, plant and equipment	4,512	27,395
Assets held for sale	**4,512**	**27,395**
Liabilities		
Current financial debt	-	(20,861)
Liabilities associated with assets held for sale	**-**	**(20,861)**
Net assets directly associated with the disposal group	**4,512**	**6,534**

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

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

In addition, under the scope of the non-core asset disposal plan announced by the Group, in the first seven months of 2018, subsidiaries Duro Felguera Rail, S.A. and Núcleo de Comunicación y Control, S.L. were reclassified as disposal groups held for sale. At the date of the accompanying interim condensed consolidated financial statements, these disposals had been concluded, entailing the sale of 100% of Núcleo de Comunicaciones y Control, S.L. and 80% of Duro Felguera Rail, S.A, respectively. A negative impact of €2.4 million from the disposals was recognised in the accompanying interim condensed consolidated financial statements.

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

7. Property, plant and equipment

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

	€ thousand					
	Land and buildings	Technical installations and machinery	Other installations, equipment and furniture	Construction in progress and advances	Other property, plant, and equipment	Total
Balance at 1 January 2017	**74,211**	**30,157**	**6,972**	**654**	**2,184**	**114,178**
Cost	83,574	75,390	22,468	654	13,371	195,457
Accumulated depreciation	(9,363)	(44,225)	(15,462)	-	(11,178)	(80,228)
Impairment losses	-	(1,008)	(34)	-	(9)	(1,051)
Carrying amount	**74,211**	**30,157**	**6,972**	**654**	**2,184**	**114,178**
Additions	57	1,625	80	165	44	1,971
Disposals	(34)	(7,141)	(2,512)	(392)	(227)	(10,306)
Other movements	-	48	201	(221)	-	28
Transfers to non-current assets held for sale	(32,263)	-	-	-	-	(32,263)
Depreciation	(1,357)	(3,216)	(838)	-	(654)	(6,065)
Elimination of depreciation	7	5,403	2,391	-	66	7,867
Other depreciation movements	940	181	46	-	108	1,275
Provisions for impairment	-	-	-	-	(2)	(2)
Reversal of impairment losses	-	8	6	-	-	14
Balance at 31 December 2017	**41,561**	**27,065**	**6,346**	**206**	**1,519**	**76,697**
Cost	51,334	69,922	20,237	206	13,188	154,887
Accumulated depreciation	(9,773)	(41,857)	(13,863)	-	(11,658)	(77,151)
Impairment losses	-	(1,000)	(28)	-	(11)	(1,039)
Carrying amount	**41,561**	**27,065**	**6,346**	**206**	**1,519**	**76,697**
Balance at 1 January 2018	**41,561**	**27,065**	**6,346**	**206**	**1,519**	**76,697**
Cost	51,334	69,922	20,237	206	13,188	154,887
Accumulated depreciation	(9,773)	(41,857)	(13,863)	-	(11,658)	(77,151)
Impairment losses	-	(1,000)	(28)	-	(11)	(1,039)
Carrying amount	**41,561**	**27,065**	**6,346**	**206**	**1,519**	**76,697**
Additions	1	320	165	-	219	705
Disposals	(2,126)	(2,557)	(161)	(54)	-	(4,898)
Other movements	(5)	(17)	(16)	-	(15)	(53)
Transfers to non-current assets held for sale	(10,089)	(30,696)	(7,929)	(181)	(3,120)	(52,015)
Depreciation	(569)	(1,769)	(474)	-	(345)	(3,157)
Elimination of depreciation	(3)	1,646	129	-	-	1,772
Other depreciation movements	1,219	18,236	5,743	-	3,127	28,325
Provisions for impairment	-	642	(1)	-	(6)	635
Reversal of impairment losses	-	114	2	-	-	116
Balance at 31 July 2018	**29,989**	**12,984**	**3,804**	**(29)**	**1,379**	**48,127**
Cost	39,115	36,972	12,296	(29)	10,272	98,626
Accumulated depreciation	(9,126)	(23,744)	(8,465)	-	(8,876)	(50,211)
Impairment losses	-	(244)	(27)	-	(17)	(288)
Carrying amount	**29,989**	**12,984**	**3,804**	**(29)**	**1,379**	**48,127**

In the seven-month period ended 31 July 2018, under the scope of the non-core asset disposal plan and having complied with the requirements in prevailing accounting regulations, the property, plant and equipment of subsidiaries Duro Felguera Rail, S.A.U. and Núcleo de Comunicación y Control, S.L., which were finally transferred to third parties, were reclassified to non-current assets held for sale (Note 6).

In addition, in July 2018, the Group's hydrocarbon storage plant in Cartagena was reclassified to non-current assets held for sale (Note 6).

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

8. Investment properties

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

	€ thousand		
	Land	**Buildings**	**Total**
Balance at 1 January 2017	**22,256**	**10,485**	**32,741**
Cost	23,049	26,795	49,844
Accumulated depreciation	-	(14,166)	(14,166)
Impairment losses	(793)	(2,144)	(2,937)
Carrying amount	**22,256**	**10,485**	**32,741**
Depreciation	-	(405)	(405)
Disposals	(114)	-	(114)
Transfers - cost	(2,132)	(3,414)	(5,546)
Transfers - depreciation	-	724	724
Balance at 31 December 2017	**20,010**	**7,390**	**27,400**
Cost	20,803	23,381	44,184
Accumulated depreciation	-	(13,847)	(13,847)
Impairment losses	(793)	(2,144)	(2,937)
Carrying amount	**20,010**	**7,390**	**27,400**
Depreciation	-	(240)	(240)
Disposals	-	-	-
Transfers - cost	221	(221)	-
Balance at 31 July 2018	**20,231**	**6,929**	**27,160**
Cost	21,024	23,160	44,184
Accumulated depreciation	-	(14,087)	(14,087)
Impairment losses	(793)	(2,144)	(2,937)
Carrying amount	**20,231**	**6,929**	**27,160**

Investment properties mainly include land in the municipalities of Langreo and Oviedo (Asturias), of which €0.98 million (2017: €1 million) correspond to plots zoned as rural estates located in various areas of the Langreo municipality, €9.9 million (2017: €9.9 million) to industrial plots and developable land, and €8.2 million (2017: €8.3 million) to buildings in Gijón, Oviedo and La Felguera.

The transfer in 2017 related to the office building in Las Rozas (Madrid), classified as available for sale (Note 6).

At 31 July 2018, the fair value of the investments, as appraised by an independent, expert valuer, stood at €35,322 thousand (31 December 2017: €35,480 thousand).

This item includes the following amounts for which the Group is lessee under a finance lease:

	€ thousand	
	31/07/2018	**31/12/2017**
Cost-capitalised finance leases	9,937	9,937
Accumulated depreciation	(1,875)	(1,778)
Net carrying amount	**8,062**	**8,159**

These amounts relate 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 17).

9. Intangible assets

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

	€ thousand					
	Goodwill	Development and innovation	Computer software	Construction in progress and advances	Other assets	Total
Balance at 1 January 2017	**15,599**	**7,519**	**15,015**	**146**	**92**	**38,371**
Cost	15,599	16,514	23,346	146	259	55,864
Accumulated amortisation	-	(8,995)	(8,331)	-	(167)	(17,493)
Carrying amount	**15,599**	**7,519**	**15,015**	**146**	**92**	**38,371**
Additions	-	2,212	67	315	-	2,594
Other movements	-	-	233	(233)	-	-
Disposals	-	(10,356)	(8)	-	-	(10,364)
Amortisation	-	(1,427)	(2,353)	-	(14)	(3,794)
Elimination of amortisation	-	4,675	5	-	-	4,680
Impairment loss	(12,313)	-	-	-	-	(12,313)
Balance at 31 December 2017	**3,286**	**2,623**	**12,959**	**228**	**78**	**19,174**
Cost	3,286	8,370	23,638	228	259	35,781
Accumulated amortisation	-	(5,747)	(10,679)	-	(181)	(16,607)
Carrying amount	**3,286**	**2,623**	**12,959**	**228**	**78**	**19,174**
Balance at 1 January 2018	**3,286**	**2,623**	**12,959**	**228**	**78**	**19,174**
Cost	3,286	8,370	23,638	228	259	35,781
Accumulated amortisation	-	(5,747)	(10,679)	-	(181)	(16,607)
Carrying amount	**3,286**	**2,623**	**12,959**	**228**	**78**	**19,174**
Additions	-	134	1	6	-	141
Other movements	-	-	-	-	-	-
Disposals	-	(1,290)	(2,096)	-	(9)	(3,395)
Amortisation	-	(340)	(1,355)	-	(8)	(1,703)
Elimination of amortisation	-	1,274	2,081	-	6	3,361
Impairment loss	-	-	-	-	-	-
Balance at 31 July 2018	**3,286**	**2,401**	**11,590**	**234**	**67**	**17,578**
Cost	3,286	7,214	21,543	234	250	32,527
Accumulated amortisation	-	(4,813)	(9,953)	-	(183)	(14,949)
Carrying amount	**3,286**	**2,401**	**11,590**	**234**	**67**	**17,578**

- Goodwill

At 31 July 2018, intangible assets included goodwill of €3,286 thousand (2017: €3,286 thousand) arising from the acquisition of Epicom, S.A.

The recoverable amount of the goodwill has been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Group's management covering a five-year period.

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

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

At 31 July 2018, in accordance with prevailing accounting standards, the Company did not test the goodwill of Epicom for impairment as there were no indications of impairment. The Group will carry out a test at the end of 2018.

In 2017, the Group wrote off the entire amount of goodwill for €12,313 thousand from the acquisition of Núcleo de Comunicaciones y Control S.L. as, based on cash flow projections, it was not recoverable.

10. Financial instruments

a) Financial instruments by category

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

	€ thousand			
31 July 2018	**Loans and receivables**	**Available-for-sale**	**Hedging derivatives**	**TOTAL**
On-balance sheet assets				
- Equity instruments	-	4,536	-	4,536
- Derivatives	-	-	-	-
- Other financial assets	370,206	-	-	370,206
- Cash and cash equivalents (Note 12)	157,301	-	-	157,301
Total	**527,507**	**4,536**	**-**	**532,043**

31 December 2017	Loans and receivables (€ thousand)	Available-for-sale (€ thousand)	Hedging derivatives (€ thousand)	TOTAL (€ thousand)
On-balance sheet assets				
- Equity instruments		5,590	-	5,590
- Derivatives		-	1,052	1,052
- Other financial assets	421,242	-	-	421,242
- Cash and cash equivalents (Note 12)	90,579	-	-	90,579
Total	**511,821**	**5,590**	**1,052**	**518,463**

Available-for-sale financial assets include mainly the stake in Ausenco for €4,465 thousand (2017: €5,205 thousand) over which the Group does not have control. Changes in the fair value of these financial assets amounting to a negative €843 thousand have been recognised (2017: negative €726 thousand).

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

31 July 2018	Liabilities at fair value through profit or loss (€ thousand)	Debts and payables (€ thousand)	Hedging derivatives (€ thousand)	TOTAL (€ thousand)
On-balance sheet liabilities				
- Bank borrowings (excluding financial lease liabilities) (Note 17)	-	88,132	-	88,132
- Finance lease liabilities (Note 17)	-	1,525	-	1,525
- Bonds and other marketable debt securities	8,069	-		8,069
- Derivatives	-	-	-	-
- Other financial liabilities	-	357,770	-	357,770
Total	**8,069**	**447,427**		**455,496**

31 December 2017	Liabilities at fair value through profit or loss (€ thousand)	Debts and payables (€ thousand)	Hedging derivatives (€ thousand)	TOTAL (€ thousand)
On-balance sheet liabilities				
- Bank borrowings (excluding financial lease liabilities) (Note 17)	-	324,052	-	324,052
- Finance lease liabilities (Notes 6 and 17)	-	22,386	-	22,386
- Derivatives	-	-	2	2
- Other financial liabilities	-	413,806	-	413,806
Total	**-**	**760,244**	**2**	**760,246**

11. Trade and other receivables

	€ thousand	
	31/07/2018	**31/12/2017**
Trade receivables	204,497	233,603
Less: Provision for impairment of receivables	(66,129)	(61,637)
Completed work pending certification	129,748	170,548
Other receivables	100,080	74,947
Tax refundable	83,710	52,909
Advance payments	1,851	3,593
Receivables from related parties (Note 25)	141	174
Total	453,898	474,137
Less: Non-current portion of other receivables	(938)	(413)
Current portion	**452,960**	**473,724**

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

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

Maturity	€ thousand	
	31/07/2018	**31/12/2017**
2019	213	365
2020	554	25
2021	162	17
Subsequent years	9	6
Total, non-current	**938**	**413**

At 31 July 2018, in addition to receivables provisioned, receivables amounting to €106,200 thousand had fallen due (2017: €98,417 thousand). Balances less than six months past due are not impaired, as these accounts correspond to customers for whom there is no recent history of default. Balance more than six months past due, which relate to projects in progress, are also not considered to be impaired as they are covered by prepayments not settled and recognised under "Trade and other payables" (Note 18) for €6.9 million (2017: €13.7 million).

The most important past-due balances relate to:

- The "Termocentro" project being carried out in Venezuela, amounting to €30,892 thousand (2017: €35,586 thousand). In the seven-month period ended 31 July 2018 and to date, no amounts related to this project have been received. At the end of the reporting period, the Company reassessed the recoverability of the receivable in accordance with IFRS 9, considering the quoted price of Venezuelan government bonds for a period of nine months, the risk of default by the country and the absence of estimates of receipts. At 31 July 2018, the Group recorded an additional provision of €4,930 thousand to the provision recorded at 31 December 2017 of €46,477 thousand. It also showed an amount for completed work pending certification of €16,553 thousand.

- The "Gangavaram Port Limited" project delivered in India for €17,437 thousand (2017: €18,230 thousand), with which the Company is involved in arbitration (Note 27). The amount is partially covered by the provision for penalty recognised by the Company of €4,765 thousand (2017: €4,896 thousand) (Note 20).

- The "Khrisna Port" project suspended in India for €3,886 thousand (2017: €4,081 thousand), with which the Company is involved in arbitration (Note 27). The amount is partially covered by the provision for penalty recognised by the Company of €663 thousand (2017: €696 thousand) (Note 20).

- The "Tuticorin" project suspended in India for €3,116 thousand (2017: €3,272 thousand), with which the Company is involved in arbitration (Note 27). The amount is partially covered by the provision for penalty recognised by the Company of €754 thousand (2017: €0 thousand) (Note 20).

"Other receivables" includes mainly €33,091 thousand (2017: €34,079 thousand) for guarantees unduly enforced by the customer of the Roy Hill Iron Ore project, with which the company is involved in an ongoing arbitration (Note 27), and €24,737 thousand (2017: €22,723 thousand) for guarantees unduly enforced in India by customers of the Gangavaram Port Limited, Khrisna Port and Tuticorin projects, of €15,532 thousand, €3,737 thousand and €5,468 thousand, respectively (Note 20), the amount receivable from the sale of Duro Felguera Rail, S.A.U. of €9,600 thousand (collected in August 2018) and deposits given to customers amounting to €22,977 thousand, as guarantee of project execution.

Based on rulings issued in the legal proceedings so far and the opinion of legal advisors, the directors consider the amounts to be recoverable.

The ageing analysis of these receivables is as follows:

	€ thousand	
	31/07/2018	**31/12/2017**
Up to 3 months	25,189	12,860
Between 3 and 6 months	11,225	5,174
Between 6 months and 1 years	2,019	10,608
More than 1 year	67,767	69,775
	106,200	**98,417**

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

	€ thousand	
	31/07/2018	**31/12/2017**
Opening balance	**61,637**	**14,818**
Provision for receivables impairment	7,552	47,012
Unused amounts reversed	(46)	-
Amounts used	(289)	(193)
Transfers	(41)	-
Exclusions from consolidation scope	(2,684)	-
Closing balance	**66,129**	**61,637**

The creation and release of the provision for impaired receivables have been included in "Other gains/(losses) net" in the income statement. The provisions recognised in 2018 relate mainly to impairment of receivables from the Termocentro project for €4,930 thousand and the Navayuga and Tuticorin projects for €2,433 thousand (Note 27). The provision recognised at 31 December 2017 related mainly to impairment of receivables from the Termocentro project for €46,477 thousand and the Roy Hill project for €55,796 thousand.

The other classes within receivables do not contain impaired assets.

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

12. Cash and cash equivalents

	€ thousand	
	31/07/2018	**31/12/2017**
Cash and banks	146,200	61,315
Short-term bank deposits and promissory notes	11,101	29,264
Cash and cash equivalents (excluding bank overdrafts)	**157,301**	**90,579**

At 31 July 2018, an amount of €10,869 thousand backed the issue of guarantees for projects and was restricted (31 December 2017: €28,866 thousand).

13. Capital and share premium

a) Capital

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

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

- Reduction of share capital through the redemption of all of the Company’s treasury shares (16 million shares) of €0.5 par value each for a total amount of €8 million, after which share capital comprised 144 million shares with an individual par value of €0.5.

- Reduction of share capital through a decrease of the par value of all of the Company shares; i.e. 144 million outstanding shares, once the treasury shares were redeemed, by a total amount of €70,560 thousand; i.e. €0.49 per share down to an individual par value of €0.01 per share, to offset losses based on the balance sheet closed and approved at 31 December 2017.

(€ thousand)

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

After this capital increase, at the date of authorisation for issue of the accompanying interim condensed consolidated financial statements, according to disclosures made to the Spanish Securities Exchange 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.	5.17%
Juan José Rodriguez-Navarro Oliver	4.17%
Sabino García Vallina	3.12%
Alvaro 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.	9.52%
Inversiones Río Magdalena, S.L.	5.17%
Onchena, S.L.	4.17%

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 July 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 July 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.

14. Share-based payments

No share delivery plan was agreed in 2018 or 2017.

15. Retained earnings and other reserves

Movements in items of "Reserves" were as follows:

	€ thousand					
	Legal reserve in the parent	Revaluation reserve Royal Decree-Law 7/1996	Other parent company reserves	Reserves in consolidated companies and valuation adjustments	Profit/(loss)	Total
At 1 January 2017	**16,000**	**958**	**(24,859)**	**74,884**	**(18,197)**	**48,786**
Distribution of 2016 profit	-	-	(23,006)	4,809	18,197	-
Other movements charged to equity	-	-	(3,860)	(10,866)	-	(14,726)
Profit/(loss) for the year	-	-	-	-	(254,496)	(254,496)
At 31 December 2017	**16,000**	**958**	**(51,725)**	**68,827**	**(254,496)**	**(220,436)**
Distribution of 2017 profit	-	-	(227,522)	(26,974)	254,496	-
Capital reduction	-	-	78,560	-	-	78,560
Other movements charged to equity	-	-	(4,827)	(15,475)	-	(20,302)
Profit/(loss) for the year	-	-	-	-	150,194	150,194
At 31 July 2018	**16,000**	**958**	**(205,514)**	**26,379**	**150,194**	**(11,984)**

<u>Legal reserve</u>

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

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

<u>Revaluation reserve Royal Decree-Law 7/1996</u>

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

<u>Availability and restrictions on reserves</u>

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

	€ thousand	
	31/07/2018	31/12/2017
Legal reserve	11,062	26,913
Revaluation reserve Royal Decree-Law 7/1996	171	1,220
	11,233	**28,133**

16. Interim dividend

The Company did not distribute any dividends in the seven-month period ended 31 July 2018 or in 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 17) in an amount equal to the dividend to be distributed.

17. Borrowings

	€ thousand	
	31/07/2018	31/12/2017
Non-current		
Convertible bonds	8,069	-
Bank borrowings	85,000	64,911
Finance lease liabilities	-	-
Other loans	8,336	9,345
	101,405	**74,256**
Current		
Bank borrowings	3,132	259,141
Finance lease liabilities	1,525	1,525
Interest payable and other financial liabilities	5,185	7,727
	9,842	**268,393**
Total borrowings	**111,247**	**342,649**

The maturity of non-current borrowings is as follows:

	€ thousand	
	31/07/2018	**31/12/2017**
Between 1 and 2 years	2,056	67,133
Between 2 and 5 years	97,745	5,307
More than 5 years	1,604	1,816
	101,405	**74,256**

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:

    - Financial logic dictates that the Class A Convertible Bonds will be converted in year two and before the Class B Convertible Bonds given:

        - The valuation of the Class B Convertible Bonds indicates a value of zero or close to zero, so their conversion is considered remote.
        - The Company's business plan considers conversion of the Class B Convertible Bonds before year four to be remote.
        - 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 adjustments to the conversion price are made for the bondholder to be in similar financial conditions as shareholders, according to International GAAP 2018, section 5.1.2 of Chapter 45 "Financial Instruments: Financial liabilities and equity";

    - 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.

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 during the six months immediately prior to the start of each conversion window must exceed the 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 (b) to (d) of Term and Condition 4.2 (at the date of execution of the public deed and until the adjustment, M=1)

$VWAP_{6M}$ (or **PMP_{6M}** in Spanish)is Volume Weighted Average Price of an 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 six months immediately prior to the start of each Conversion Window, one of the circumstances described in (a) to (d) of Term and Condition 4.2 arises, with the adjustment made until the last date of trading of the Ordinary Shares carrying right at each related event (last trading date).

N is the number of Ordinary Shares of the Issuer, which shall be adjusted by the Correction Factor if, during the six months immediately prior to the start of each Conversion Window, one of the circumstances described in (a) to (d) of Term and Condition 4.2 arises.

X is the Minimum Capitalisation Value, which shall be adjusted by the Correction Factor if, during the six months immediately prior to the start of each Conversion Window, one of the circumstances described in (b) to (d) of Term and Condition 4.2 arises.

The **Conversion Price** (Cp) 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 independent expert valuation concludes that the Class B Convertible Bonds are worth €8,069 thousand, recognised as a financial liability.

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);

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

- It shall not adopt any resolutions or carry out any transaction that modify the Issuer's share capital except where they relate to the exercise of the Right of Conversion of the Bondholders in accordance with these Terms and Conditions;

- It shall not declare or pay any dividends or make any other distributions or payment to shareholders in any other connection;

- It shall not reduce the share premium account or any reserve of the Company, except where required by law or in application of accounting standards.

b) Bank borrowings

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

The refinancing agreement entails the conversion of debt into convertible bonds (Note 17 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 17 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**

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 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).

c) Draw-downs on credit accounts and discounting facilities

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

	31/07/2018	31/12/2017
Loans:		
Euro	2%	0.9%-14%
Venezuelan bolivar	-	24%

The Group has the following undrawn credit facilities:

	€ thousand	
	31/07/2018	31/12/2017
Floating rate:		
– Expiring within one year	300	367
– Expiring beyond one year	-	89
	300	**456**

d) Finance lease liabilities

"Finance lease liabilities" includes mainly an amount of €1,525 thousand relating to the buildings indicated in Note 8 (2017: €1,525 thousand).

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

	€ thousand	
	31/07/2018	31/12/2017
Finance lease liabilities (minimum lease payments):		
- Within one year	1,525	1,525
- After one year but not more than five years	-	-
- More than five years	-	-
	1,525	**1,525**

On 26 September 2018, the Group repaid in full the outstanding amount of the finance lease.

e) Other loans

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

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

18. Trade and other payables

	€ thousand	
	31/07/2018	31/12/2017
Suppliers	201,591	259,925
Amounts due to related parties (Note 25)	94	214
Other payables	12,148	13,724
Advances received for contract work	130,416	122,871
Social security and other taxes	48,598	21,434
	392,847	418,168
Non-current portion	-	-
	392,847	**418,168**

19. Deferred taxes

Deferred tax assets and liabilities are as follows:

	€ thousand	
	31/07/2018	31/12/2017
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	35,234	10,082
- Deferred tax assets to be recovered within 12 months	7,644	950
	42,878	**11,032**
Deferred tax liabilities:		
- Deferred tax liability to be recovered after more than 12 months	(38,040)	(13,751)
- Deferred tax liability to be recovered within 12 months	(6,710)	-
	(44,750)	**(13,751)**
Net	**(1,872)**	**(2,719)**

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

	€ thousand	
	31/07/2018	31/12/2017
Opening balance	**(2,719)**	**56,265**
(Charged)/credited to the income statement	254	(54,400)
Adjustment	13	-
(Charged)/credited to reserves	580	(4,584)
Closing balance	**(1,872)**	**(2,719)**

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

	€ thousand			
Deferred tax assets	**Provision for employee benefit obligations**	**Tax losses and deductions**	**Other**	**Total**
At 1 January 2017	**1,663**	**38,546**	**28,262**	**68,471**
(Charge)/Credit to the income statement	(1,663)	(38,546)	(12,223)	(52,432)
Charge/(Credit) to equity	-	-	(5,007)	(5,007)
At 31 December 2017	**-**	**-**	**11,032**	**11,032**
(Charge)/Credit to the income statement	-	33,551	(1,424)	32,127
Derecognitions	-	-	(440)	(440)
Charge/(Credit) to equity	-	-	159	159
At 31 July 2018	**-**	**33,551**	**9,327**	**42,878**

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

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

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

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

	€ thousand			
Deferred tax liabilities	**Gains on transactions with non-current assets**	**Asset revaluation**	**Other**	**Total**
At 1 January 2017	**165**	**3,922**	**8,119**	**12,206**
Charge/(Credit) to the income statement	-	-	1,968	1,968
Charge/(Credit) to equity	2	(546)	121	(423)
At 31 December 2017	**167**	**3,376**	**10,208**	**13,751**
Charge/(Credit) to the income statement	-	-	31,873	31,873
Derecognitions	-	-	(454)	(454)
Charge/(Credit) to equity	-	(229)	(191)	(420)
At 31 July 2018	**167**	**3,147**	**41,436**	**44,750**

The Group recognised a deferred tax liability in the period of €33,551 thousand for the accounting income related to the conversion of the Class B Convertible Bonds for €134,204 thousand arising from the refinancing agreement signed by the Group (Note 17) and effective 27 July 2018. This agreement was ratified judicially by Mercantile Court 3 of Oviedo on 26 July 2018 in accordance with Additional Provision 4 of Insolvency Act 22/2003, of 9 July.

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

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

Accordingly, the tax income recognised annually in the corporate tax statement has no limit on the offset of tax loss carryforwards, as provided in the tax legislation. As a result, since the Spanish tax group had €132,900 thousand of unused tax loss carryforwards at 31 December 2017 arising in prior years and the outlook is for tax loss carryforwards to be generated in 2018 (the amount to the end of July was €42,317 thousand), the tax income recognised may be set off in full with these tax loss carryforwards, since they exceed the tax income.

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

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

Therefore, by recognising the deferred tax liability related to the negative tax adjustment arising from the exclusion of the financial income, in accordance with accounting regulations, a deferred tax asset of €33,551 thousand is also recognised for the tax loss carryforwards that will be used to set off this tax adjustment, leaving unused tax losses of €41,013 thousand.

The most significant deferred tax liabilities relate primarily to:

a) €41,672 thousand with the Spanish tax group.
b) €775 thousand with Felguera IHI.
c) €530 thousand with Duro Felguera Australia Pty. Ltd.
d) €408 thousand with Dunor Energía.

20. Provisions for other liabilities and charges

	€ thousand			
	Provision for completion of works	Trade provisions	Other provisions	Total
At 31 December 2017	**80,586**	**17,518**	**11,972**	**110,076**
Charge to income statement				
- Provisions	19,725	195	5,598	25,518
- Utilised	(107)	-	(506)	(613)
- Unused amounts reversed	(10,759)	-	(148)	(10,907)
- Other movements	(1,268)	(690)	(8,766)	(10,724)
At 31 July 2018	**88,177**	**17,023**	**8,150**	**113,350**

Charges in the seven-month period ended 31 July 2018 to “Provision for completion of works” relate primarily to provisions for project losses of €14,497 thousand, for guarantees of €995 thousand and the increase in the provision for Roy Hill of €4,233 thousand. “Unused amounts reversed” relates mainly to amounts used of provisions for losses made as the related projects are executed, for €5,188 thousand, and the cancellation of guarantees for €5,571 thousand. The cash outflow is expected to take place during the next three years.

The charge of €5,598 thousand to “Other provisions” includes mainly the estimated risk related to the arbitration of the Digestores de Medellín project in Colombia.

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

The net movement in “Provision for completion of works” of €7.6 million in 2018 is as follows: €-5.3 million to guarantees, €+10.1 million to losses on projects, and €+2.8 million to liabilities. In all cases, the expected outflow of economic benefits is between six months and three years, depending on the estimates dates of completion of projects in progress.

At 31 July 2018, the Group has recognised provisions for losses amounting to €22,856 thousand (31 December 2017: €12,802 thousand).

The breakdown of the provision for completion of works is: provision for warranties of €15.1 million (none of which for individual projects is significant), provision for penalties of €5.4 million (mainly the GPL and Khrisna Port projects) and the provision for losses of €22.9 million. Also included are the provisions set aside for the Roy Hill project for €44.8 million (Note 27). In addition, "Trade provisions" includes €16.5 million related to contingencies with suppliers of the Roy Hill project.

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

	Other provisions	
	€ thousand	**Estimated schedule**
Litigation with suppliers	2,176	Next 6 months
Liabilities and charges due to labour disputes	423	Between 12 and 24 months
Liabilities and charges due to legal proceedings	5,551	Between 6 months and 3 years
	8,150	

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

	€ thousand	
	31/07/2018	**31/12/2017**
Analysis of total provisions:		
– Non-current	11	1,956
– Current	113,339	108,120
	113,350	**110,076**

21. Net finance income/(cost)

	€ thousand	
	31/07/2018	**31/07/2017 (Unaudited)**
Finance expense and similar costs	(6,388)	(6,528)
Loss of purchasing power due to hyperinflation	(6,039)	-
	(12,427)	(6,528)
Income for:		
– Financial interest	836	501
– Financial restructuring	214,942	-
	203,351	(6,027)
Net foreign exchange difference	(155)	(6,480)
Change in fair value of financial instruments	(10)	(1,297)
Total net finance income/(cost)	**203,186**	**(13,804)**

The loss of purchasing power due to hyperinflation reflects the impact of inflation on the monetary items held by the Group in Argentina after the country's classification as a hyperinflationary economy (Note 2 d)).

The net financial result reflects the positive impact of the conversion of the convertible bonds (Note 17 a)) for the difference between the nominal amount of the liability converted of €233,009 thousand and the fair value of the bonds of €16,162 thousand, net of transaction costs.

22. Income tax expense

Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate. Amounts accrued for income tax in one period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual income tax rate changes.

The effective tax rate for the seven-month period ended 31 July 2018 was -0.2% (seven-month period ended 31 July 2017: 0.3%).

23. Earnings per share

a) Basic

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of the company by the weighted average number of ordinary shares in issue during the period (Note 13).

	31/07/2018	**31/07/2017 (Unaudited)**
Profit/(loss) attributable to shareholders of the company (€ thousand)	150,194	(11,619)
Weighted average number of ordinary shares in issue (thousand)	165,962	144,000
Basic earnings/(loss) per share (€)	**0.90**	**(0.08)**

b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. At 31 July 2018, the Company considered as dilutive potential shares the conversion of Class A Convertible Bonds corresponding to 306,382,989 shares. At the closing date of the accompanying interim condensed consolidated financial statements, conversion of the Class B Convertible Bonds (Note 17 a) was considered remote.

	31/07/2018	**31/07/2017 (Unaudited)**
Profit/(loss) attributable to shareholders of the company (€ thousand)	150,194	(11,619)
Weighted average number of ordinary shares in issue (thousand)	167,407	144,000
Basic earnings/(loss) per share (€)	**0.90**	**(0.08)**

24. Dividends per share

The Company did not distribute any dividends in the seven-month periods ended 31 July 2018 and 2017.

25. Related party transactions

The following transactions were carried out with related parties:

a) Purchases of goods and services

	€ thousand	
	31/07/2018	31/07/2017 (Unaudited)
Purchases of goods and services		
- Associates	-	-
- Related parties	-	7
	-	**7**

b) Key management and director compensation

	€ thousand	
	31/07/2018	31/07/2017 (Unaudited)
Salaries and other short-term remuneration:		
- Members of the Board of Directors	566	549
- Management personnel	631	1,409
	1,197	**1,958**

c) Loans to related parties

	€ thousand	
	31/07/2018	31/12/2017
Opening balance	54	72
Additions	-	-
Loan repayments received	(10)	(18)
Closing balance	**44**	**54**

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

In the seven-month period ended 31 July 2018, Ricardo de Guindos Latorre, Ignacio Soria Vidal and Covadonga Betegón Biempica were appointed as independent directors. In addition, Inversiones Rio Magdalena, S.L., Inversiones Somio, S.L. and Inversiones El Piles resigned as directors, while Angel Antonio del Valle Suárez also stepped down as director.

After the capital increase carried out on 27 July 2018, independent directors Elena Cabal Noriega and F. Javier Gonzalez Canga ceased to be independent directors, and Alejandro Legarda Zaragüeta, Juan Miguel Sucunza Nicasio and Marta Elorza Trueba were appointed as independent directors.

26. Average number of employees

The distribution of the Group's average headcount in the seven-month period ended 31 July 2018 and 2017 is as follows:

	No. of employees	
	31/07/2018	31/07/2017 (Unaudited)
Average number of employees	**1,895**	**2,262**
Men	1,569	1,830
Women	326	432

The Group's average headcount at 31 July 2018 was 1,149 employees on permanent employment contracts and 746 on temporary employment contracts (31 July 2017: 1,058 and 1,207, respectively).

27. Contingencies

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

At 31 July 2018 and 31 December 2017, the Group had extended the following guarantees:

	€ thousand	
	31/07/2018	31/12/2017
For tender proposals	1,413	2,026
Guarantees in sales contracts in progress	467,108	523,476
Other	3,794	3,089
	472,315	**528,591**

Additionally, the Group has contingent liabilities in respect of litigation which are not expected to give rise to material liabilities other than those provided for (Note 20).

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

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

- Advance payment: Customers provide monetary advances at the commencement of projects to meet project costs. Advance payment guarantees back the proper use of the advance payments in the project.

- Performance bond: Performance bonds guarantee execution of the work contracted by customers.
- Warranty: Warranties ensure the correct operation of the facilities built by the Group during the period covered thereunder.

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

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

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

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 USD80.6 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.

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, etc. In addition, although the Company's outlook and view of the potential impact is positive based on the internal investigation carried out and since it is still in the early stages, based on the information available to date it is not possible to determine the probability or extent of the potential consequences, which will depend on the outcome of the criminal proceedings.

In 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 not only not authorised, but been aware of and/or gave 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 winning, negotiating, arranging and executing the agreement with C.A. Electricidad de Caracas and the Termocentro combined cycle plant construction project.

Therefore, no liability should be attributed to the Company for any potential money laundering crimes, since there is no predicate offence, nor any involvement by the Company. Finally, the Company considers that the measure and policies outlined in its non-financial reporting are still appropriate.
The Company has not recognised any provision, since it considers that the conditions for recognition provided in IAS 37.14 b) and c) are not met.

Roy Hill

The Group is involved in arbitration proceedings with Samsung C&T in the Arbitration Court of Singapore related to the Roy Hill project, claiming AUD 313 million for guarantees unduly enforced, contracted work not paid, work not paid outside the contract and not recognised by Samsung as customer, and lastly, reimbursement of guarantees unduly enforced against the partner of the Forge consortium, since DFA appears in the proceedings as the head of this consortium.

Trade and other receivables at 31 July 2018 includes an amount of €75,714 thousand (31 December 2017: €77,002 thousand) for amounts invoiced and receivable for the project, completed work pending certification, and guarantees enforced by the customer. Liabilities includes a provision €44,801 thousand (31 December 2017: €41,805 thousand) for the estimated exposure. Since the scope of the project consists mainly of the supply of equipment, mostly outsourced, it has "back to back" contractual provisions in sub-contractor agreements allowing for compensation of the guarantees enforced, whereby if Duro Felguera is in breach, this would be partially passed on to the third parties.

In addition, in July this year, an agreement was reached with Samsung C&T to replace the €5,391 thousand guarantee with a bank deposit in an escrow account, available in accordance with the resolution of the Company's lawsuit with Samsung. At present, until title to this escrow account vests, the funds are placed in a trust account held by Samsung's lawyers.

The arbitration in Singapore (covering all of the parties' claims at all instances) is currently underway. The final hearings were held in February 2018 and the parties' conclusions delivered in April 2018. The final arbitration ruling is pending at present and could be issued either around the end of 2018 or sometime in the first quarter of 2019. At present, no material events have arisen regarding the situation of these proceedings and no new assessments have been made. Therefore, the directors consider, based on the opinion of external legal counsel dated 1 May 2018 and 19 October 2018, the opinion of internal advisors and the negotiations carried out with the customer to date, that the provision recognised under liabilities of €44,801 thousand covers the maximum amount of risk for Duro Felguera. They do not expect any additional liabilities to arise that might have a significant effect on the accompanying interim condensed consolidated financial statements.

Vuelta de Obligado

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

- Claim for delays in the availability of electricity and compensation for the new labour/trade union agreement, amounting to ARP 777 million (approximately €23.9 million) at present.
- Claim for technical modifications to the original project made at the customer's request, amounting to ARP 640 million (approximately €19.8 million) at present.
- Claim for losses caused by the sudden lack of representativeness in the scheme for recalculating prices, amounting to ARP 732 million (approximately €22.6 million).
- Claim for additional measures adopted to prevent damage and higher costs arising from the default by Central Vuelta de Obligado, amounting to ARP 807 million (approximately €24.9 million).

On 7 August 2017, the parties signed a supplementary agreement whereby they undertook to temporarily suspend the process until 29 May 2018, in order to close the combined cycle and complete the project within a reasonable period. During this period, the parties agree to suspend the deadlines in the arbitration and establish a 120-day negotiation period starting from completion and delivery of the project (agreed for 28 February 2018) to conclude the claims filed. Based on the certification provided by the customer of the plant's commissioning, the total claims submitted at the closing rate amount to €92.2 million, equivalent to ARP 2,957 million (31 December 2017: €127 million, equivalent to ARP 2,595 million at the closing exchange rate). 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 November 2018. If after the suspension no agreement is reached, the parties will be free to continue with the arbitration proceedings, which are expected to be resolved within the next 2-3 years.

Regarding this claim, at 31 July 2018, the amount recognised was €48.2 million (31 December 2017: €47.3 million), updated by the interest for the year at Banco de la Nación Argentina's asset rate.

As part of this project, there is an arbitration proceeding before the Buenos Aires Stock Exchange, in which FAINSER, the partner of the temporary joint venture, is claiming, as subcontractor, amounts for various items for a total of USD 5,814,686 and ARP 514,814,518. At the same time, Duro Felguera Argentina has filed a claim against FAINSER for an amount between ARP 72,758,074 and ARP 105,153,312.04. On 20 February 2018, the Court issued a final award in favour of UTE Duro Felguera Argentina, S.A. – Fainser, S.A. for a net amount of approximately €300 thousand.

Regarding the Group's arbitration proceedings in India with certain customers, the recoverability of the amounts receivables has been reassessed based on a legal opinion of external lawyers dated 17 September 2018 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.

<u>Navayuga Engineering Company</u>

On 30 August 2018, the ruling on the arbitration between the subsidiary in India, Felguera Gruas India, and its customer, Navayuga Engineering Company Ltd., was notified. In these proceedings, Felguera Gruas India claimed €6.3 million, while the customer claimed €9.6 million. The ruling rejects Navayuga's claims and accepts Felguera Gruas India's claims, for €2.3 million. The Group set aside a provision of €1.7 million to adjust the receivable to the amount recognised by the court.

<u>Gangavaram Port Limited</u>

The Group is involved in an arbitration in India with a customer of the GPLII project claiming guarantees enforced, unpaid invoices, completed work and interest for approximately €61,657 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 €4,765 thousand (31 December 2017: €4,896 thousand) has been recognised (Note 20).

Trade and other receivables includes €17,437 thousand (31 December 2017: €18,230 thousand) for amounts invoiced and receivable for this project, and €15,532 thousand (at 31 December 2017: €15,954 thousand) of guarantees enforced by the customer. No amount is recognised under “Completed work pending certification”. Suppliers includes €2,562 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. 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. At 31 July 2018, the Group reassessed the recoverability of the receivables related to this arbitration based on an opinion of the legal advisors in India, the Company’s internal evaluation and the considerations and items admitted and applied by the courts in the rulings issued on 30 August 2018 for the arbitration with Navayuga Engineering Company Ltd. and Krisnnapatnam Port Company Ltd.

All GPLII's arbitration cases involve the same project, but each procedure is considered individually.

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 interim condensed consolidated financial statements.

Khrisna Port

The subsidiary in India, Felguera Grúas India, is involved in an arbitration, claiming a total amount of approximately €12,114 thousand for unpaid invoices, the reimbursement of guarantees, additional work and interest. RVR has filed a counterclaim against FGI for €16 million for additional costs for its part of the contract scope and penalties.

Trade and other receivables includes €3,886 thousand (31 December 2017: €4,081 thousand) for amounts invoiced and receivable for this project, and €3,737 thousand (at 31 December 2017: €3,924 thousand) of guarantees enforced by the customer, as well as a provision for penalties of €663 thousand (at 31 December 2017: €696 thousand) (Note 20) for the maximum contractual penalty for “liquidated damages” of 10%.

At 31 July 2018, the Group reassessed the recoverability of the receivables related to this arbitration based on an opinion of the legal advisors in India, the Company’s internal evaluation and the considerations and items admitted and applied by the courts in the rulings issued on 30 August 2018 for the arbitration with Navayuga Engineering Company Ltd. and Krisnnapatnam Port Company Ltd.

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

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

Tuticorin

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

In April 2018, the customer enforced the guarantees, for €5,468 thousand. This amount is included in the arbitration.

Trade and other receivables includes an amount of €3,116 thousand for amounts invoiced and receivable for the project, €2,189 thousand for completed work pending certification, and €5,468 thousand of guarantees enforced by the customer.

At 31 July 2018, the Group reassessed the recoverability of the receivables related to this arbitration based on an opinion of the legal advisors in India, the Company's internal evaluation and the considerations and items admitted and applied by the courts in the rulings issued on 30 August 2018 for the arbitration with Navayuga Engineering Company Ltd. and Krisnnapatnam Port Company Ltd., setting aside a provision of €754 thousand.

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 interim condensed consolidated financial statements.

28. Other information

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, professional fees 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, the Company must submit its written statements to the court. After identifying a defect of substance, the Company submitted a report to the TEAC dated 6 March 2018 requesting completion of the case 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 has just been granted. The Company's 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 statements 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 corporate 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 to Duro Felguera, S.A. for VAT and income tax - related party transactions, on 15 February 2018, the Central Economic Administrative Court 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 both claims (VAT and corporate income tax) 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 7 September 2018 has just been granted. The Company’s 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.

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 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 Central Economic Administrative Court notified the presentation of allegations and evidence. 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.

In the opinion of the Company's management and the conclusion of its external tax advisors, it is unlikely that the amount of the assessments or the 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.

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

To date, the Company has not made any payments related to these proceedings. The taxation authorities agreed a suspension with the contribution of real estate collateral for the amounts owed from the settlement agreements of VAT, personal income-tax withholding and corporate 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. An appeal 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 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 9 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 July 2018, the National Court notified the Company of its ruling dated 15 June 2018 rejecting its appeal for reversal.

This ruling is eligible for appeal to the Supreme Court, which the Company has done within the legal deadline, submitting its motion for reconsideration on 5 October 2018. 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.

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 interim condensed consolidated financial and based on the analysis of the external advisors:

- the ruling of 26 March is not final, but subject to appeal to the Supreme Court as the 2-month deadline for providing guarantees on which the suspension (filed on 5 October 2018) 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;

- even in the event that the National Court agrees to lift the suspension, the AEAT must process and decide on the subsidiary request for deferment presented by Duro Felguera before taking any steps to enforce collection of the tax debt.

If the outcome of the proceeding before the Supreme Court regarding the precautionary measure is adverse, 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 underway, 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 2018 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.

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 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 audit commenced on 6 March 2018 is currently in the initial phase since only two reports have been signed. The inspection is expected to last at least a year. At present, no estimate of the impact can be made.

29. Events after the reporting period

On 30 August 2018, the ruling on the arbitration between the subsidiary in India, Felguera Gruas India, and its customer, Navayuga Engineering Company Ltd., was notified. In these proceedings, FGI claimed €6.3 million, while the customer claimed €9.6 million. The ruling rejects Navayuga's claims and accepts FGI's claims, for €2.3 million. The Group set aside a provision of €1.7 million to adjust the receivable to the amount recognised by the court.

30. Additional note for English translation

These interim condensed consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 1). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

DURO FELGUERA, S.A. AND SUBSIDIARIES

Interim Condensed Consolidated Management Report for the seven-month period ended 31 July 2018

GENERAL PERFORMANCE

Activity in the first seven months of 2018 was shaped considerably by the liquidity stress caused by the financial position, making it difficult to win new projects and undermining production. This resulted in an operating loss of €57.4 million owing to thin activity, a €30.2 million deviation in certain projects (reducing the total margin on these projects by €44.9 million) and €12.8 million of one-off provisions (€7.3 million for the impairment of receivables in India and Termocentro and €5.5 million for the estimated risk in the arbitration over the Digestores de Medellín project in Colombia). The net financial result reflects mainly income from the financial restructuring of €215 million and an expense from the loss of purchasing power in Argentina of €6 million following the country's classification as a hyperinflationary economy.

The satisfactory conclusion of the July capital increase and financial debt restructuring (Note 2):

- improved the Company's liquidity (Note 3.1 c) and working capital position with the €125 million cash inflow from the capital increase, the €225 million reduction of the financial liability and the €85 million restructuring of remaining long-term financial liability. As a result, the consolidated liquidity reserve (Note 3.1 c) has gone from a negative €271.4 million at 31 December 2017 to a positive €46.4 million, while consolidated working capital has gone from a negative €207.1 million to a positive €107.2 million.

- restored equity with the €125 million capital increase, with recognition of an equity instrument for €8.1 million, a debt instrument for €8.1 million and the positive impact on the financial result of the rest of the conversion of the convertible bonds for €215 million. As a result, Group equity went from a negative €164.8 million at 31 December 2017 to a positive €101.1 million.

To illustrate the Company's recent performance, the following table shows the Group's main financial indicators at 31 July and 30 June 2018.

	€ thousand		
	31.07.2018	**30.06.2018**	**July**
Revenue	255,594	222,219	33,375
EBITDA (3)	(52,480)	(48,182)	(4,298)
Profit/(loss) before tax	142,649	(61,084)	203,733
Order intake (2)	53,019	52,191	828
Order backlog (1)	922,913	953,635(4)	30,722

(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 period, calculated by adding the amounts of each contract signed during the period.

(3) EBITDA is earnings before interest, tax, depreciation and amortisation, calculated as disclosed in Note 5 to the interim condensed consolidated financial statements.

(4) For comparability, the backlog at 31 July 2017 is shown net of the adjustments made to the backlog in the third quarter of 2017 of €918 million.

EBITDA for July was a negative €4.3 million, well below the monthly average in the first half of the year of approximately €-8 million, signalling a sharp trend reversal that will need to be confirmed in the second half of the year.

The main extraordinary items behind July's negative EBITDA of €4.3 million were: (1) the additional impairment of €4 million on the receivable from Termocentro (Note 11) and (2) the positive accounting impact of €2.3 million of the sale of DF Rail.

Business outlook

The liquidity crunch plaguing the Company has undermined the business, causing delays in ongoing projects. Thanks to the €125.7 million capital increase, they should resume in the fourth quarter of 2018.

The impact of the slowdown and delay in raising the expected funds has led to a severe cut to forecast cash flows for the coming months.

In August, the Board of Directors engaged an independent external advisor to perform a technical and financial assessment of the projects in the pipeline and cash flows. The scope consisted of a detailed analysis of budgets, risks and technical progress of projects, and included visits to sites and an assessment of teams.

This resulted in the identification of cost deviations and additional impairments on certain projects compared to the strategic plan, implying a reduction in cash of €38 million (€29 million related to projects and €9 million to ongoing arbitrations).

Other events taking place to date include:

(1) delays in the collection of certain accounts subject to litigation, for approximately €33 million, expected to be received in 2018 according to the strategic plan.

(2) delays in arranging the new financing lines envisaged in the strategic plan in 2018 for €50 million.

(3) delays in the contracting of several projects, for around €180 million, expected to be contracted in 2018 according to the strategic plan.

To cope with these deviations, a decision was made to undertake a series of emergency action plans to remedy the situation. These plans include:

- Renegotiation with customers of the terms of certain projects underway to mitigate the risk of cost over-runs, delays or additional losses.

- Reinforcement in winning new contracts and enhancing the efficiency of the business structure.

- Reinforcement of the Company's financial position, which in 2019 could entail the need for an additional liquidity injection depending on the pace of expected recovery of delays in collections and the arrangement of new financing facilities.

The Company is currently considering the operational and financial alternatives available to achieve these objectives.

After the capital increase and given the situation described, the Company embarked on the following actions to shore up its management:

- Reinforcement of the Board of Directors with the addition of three new independent directors.

- Start of the search for a general manager to assist the executive chairman.

- Start of the search for other recruitments to reinforce project management and management control.

- Temporary filling of positions with highly experienced external personnel until the new candidates join the Company.

Meanwhile, planned disposals are proceeding to the schedule in the strategic plan. To date, the office building in Madrid has been sold (as described in 2017 financial statements), as have the Núcleo Comunicación y Control and Duro Felguera Rail (80%) subsidiaries.

The cost saving plan is moving forwards in accordance with the amounts envisaged in the strategic plan.

The company is currently updating its strategic plan according to these action plans and will unveil the new plan in November, with details of its business performance and funding needs.

MAIN RISKS AND UNCERTAINTIES

Operational risk

The main risk associated with turnkey projects relates to start-up and execution deadlines (technical risks). Thanks to the experience gained in this type of project, the Group boasts a strong performance track record, with few penalties applied historically by customers. Project managers assess project performance regularly, reporting the results to line managers who, in turn, report to the executive chairman.

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

Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk on transactions in foreign currencies, mainly the US dollar (USD) and Australian dollar (AUD), and to a lesser extent, local currencies in emerging countries, the most important of which at present are the Argentine peso (ARP) and Indian rupee (INR). Foreign currency risk arises on future commercial transactions, recognised assets and recognised liabilities.

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

- Most contracts are arranged in "multi-currency", separating the selling price in the various currencies from the expected costs and maintaining the expected margins in euros.
- Financing of working capital relating to each project is denominated in the 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 Group's risk management policy is to hedge most of the forecast transactions over the life of each project. However, the operating units are responsible for taking decisions on arranging hedges, using external forward foreign currency contracts, with cooperation by 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 Group includes a scaled price review in contracts of this kind pegged to consumer price indices, as in the case of its contracts in Venezuela and Argentina.

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

Cash flow and fair value interest rate risk

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

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

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

Credit risk

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

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

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

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

Our main customers represent 54% of “Trade and other receivables” at 31 July 2018 (2017: 57%), relating to operations with the type of institutions indicated above. Accordingly, the Group considers that credit risk is extremely limited. In addition to the analysis performed before entering into a contract, the overall position of “Trade and other receivables” is monitored on an ongoing basis, while the most significant exposures (including the type of entities mentioned earlier) are monitored individually.

Liquidity risk

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

Management monitors the forecasts for the Company's liquidity reserves based on estimated cash flows. The Company has credit lines that offer additional support to its liquidity position.

Following the completion of the financial restructuring and capital increase explained in Note 2, liquidity risk has decreased considerably, thanks to:

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

FINANCIAL INSTRUMENTS

In the seven-month period ended 31 July 2018, the Group followed the same policy for the use of financial instruments as that described in Note 3 to the 2017 annual consolidated financial statements.

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 July 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.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 30 August 2018, the ruling on the arbitration between the subsidiary in India, Felguera Gruas India, and its customer, Navayuga Engineering Company Ltd., was notified. In these proceedings, FGI claimed €6.3 million, while the customer claimed €9.6 million. The ruling rejects Navayuga's claims and accepts FGI's claims, for €2.3 million. The Group set aside a provision of €1.7 million to adjust the receivable to the amount recognised by the court.

DURO FELGUERA, S.A. AND SUBSIDIARIES

APPROVAL OF THE BOARD OF DIRECTORS

Chairman	Acacio Faustino Rodríguez García
Director	Alejandro Legarda Zaragüeta
Director	Juan Miguel Sucunza Nicasio
Director	José Manuel García Hermoso
Director	Ricardo Guindos Latorre
Director	Ignacio Soria Vidal
Director	Covadonga Betegón Biempica
Director	Marta Elorza Trueba (*)
Secretary, non-director	Secundino Felgueroso Fuentes

In accordance with the power delegated by the board of directors, the board secretary hereby certifies that the interim condensed consolidated financial statements and consolidated management report for the seven-month period ended 31 July 2018 and the statement issued by the persons responsible for the information have been signed, in the Spanish language version, by the directors, whose full names and positions are indicated after their signature, on 24 October 2018. In the event of discrepancy, the Spanish language version prevails.

(*) As provided for in Section 253.2 of the Capital Enterprises Act, director Marta Elorza Trueba was not present to sign the financial statements, but sent written instructions verifying her authorisation for issue.

Madrid, 24 October 2018

Secundino Felgueroso Fuentes

Secretary, non-director