Report of Limited Review

DURO FELGUERA, S.A. AND SUBSIDIARY COMPANIES
Interim Financial Statements and Interim Consolidated Management Report
for the six-months period ended
June 30, 2017

Building a better working world

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Translation of a report and interim condensed financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 18)

LIMITED REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the interim condensed consolidated financial statements

Introduction

We have performed a limited review of the accompanying interim condensed consolidated financial statements (the "interim financial statements") of DURO FELGUERA, S.A. (the "parent company") and subsidiaries (the "Group"), which comprise the interim condensed consolidated balance sheet at 30 June 2017, the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows and the explanatory notes thereto for six months then ended. The parent company's management is responsible for the preparation of the interim financial statements in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union for the preparation of interim condensed financial information, as provided for in article 12 of Royal Decree 1362/2007. Our responsibility is to express an opinion on these interim financial statements based on our limited review.

Scope of the review

We have carried out our limited review in accordance with the International Standard on Engagements 2410, "Review of Interim Financial Reporting Performed by the Independent Auditor of the Entity." A limited review of interim financial statements consists of making inquiries, primarily of personnel responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit carried out in accordance with regulations on the auditing of accounts in force in Spain and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

As a result of our limited review, which cannot be considered an audit of accounts, no matter came to our attention that would lead us to conclude that the accompanying interim financial statements for the six months ended 30 June 2017 have not been prepared, in all material respects, in accordance with the requirements established by IAS 34 Interim Financial Reporting as adopted by the European Union for the preparation of interim financial statements, as provided for in article 12 of Royal Decree 1362/2007.

Domicilio Social: C/Raimundo Fernández Villaverde, 65. 28003 Madrid -Inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª, Madrid 9 de Marzo de 1.989. A member firm of Ernst & Young Global Limited.

Emphasis of matter paragraphs

We draw attention to Note 2 of the explanatory notes, where it is stated that the accompanying interim financial statements do not include all the disclosures required in a complete set of consolidated financial statements prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, and therefore should be read in conjunction with the Group's consolidated annual financial statements for the year ended 31 December 2016. Our conclusion is not qualified in respect of this matter.

We call attention to Note 2.a) of the interim condensed consolidated financial statements, which points out that the Group's liquidity risk (Note 4.1) and overall debt (Note 7) have increased. As indicated in Note 2.a), the parent company is in negotiations with the main financial institutions in the bank pool (Note 7) to match its liquidity needs and the maturity of the debt to its business plan. A standstill agreement was signed with them on 3 July 2017 with a limit on maturity of 30 September 2017. An extension is currently being processed. Moreover, the parent company is exploring, together with its advisors, alternative measures to improve liquidity in the short and medium term. These include bringing in a strategic partner, disposing of non-core assets, and carrying out an organisational streamlining. The same note states that the directors of the parent company have prepared the accompanying interim condensed consolidated financial statements on a going concern basis in accordance with their favourable outlook for the conclusion of the negotiation process with the financial institutions and the arrival of a strategic partner.

These circumstances indicate that there is a material uncertainty that could give rise to significant doubts surrounding the Group's ability to continue as a going concern, so that it could realise its assets and settle its liabilities for the amounts and in accordance with the classification presented in the interim condensed consolidated financial statements. Our conclusion is not qualified in respect of this matter.

Report on other legal and regulatory requirements

The accompanying interim consolidated management report for the six months ended 30 June 2017 contains such explanations as the parent company's directors consider appropriate concerning the main events occurring in the period and their impact on the interim financial statements presented, of which it is not an integral part, and on the information required by article 15 of Royal Decree 1362/2007. We have checked that the accounting information included in the aforementioned management report agrees with the interim financial statements for the six months ended 30 June 2017. Our work is limited to checking the interim consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of DURO FELGUERA, S.A. and subsidiaries.

Other matter paragraph

This report was prepared at the request of the Board of Directors of DURO FELGUERA, S.A. regarding the publication of the interim financial information required under article 119 of Legislative Royal Decree 4/2015, of 23 October, approving the consolidated text of the Securities Market Act implemented by Royal Decree 1362/2007 of 19 October.

ERNST & YOUNG, S.L.

(signed in the original version)

José Enrique Quijada Casillas

September 29, 2017

DURO FELGUERA, S.A.
AND SUBSIDIARIES

Interim Condensed Consolidated
Financial Statements and Management Report
for the six months ended 30 June 2017

DURO FELGUERA, S.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

Note

DURO FELGUERA, S.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (€ thousand)

ASSETS	**Note**	**At 30 June 2017 (Unaudited)**	**At 31 December 2016 (Audited)**
Property, plant and equipment	6	80,799	114,178
Investment properties	6	32,517	32,741
Intangible assets	6	37,981	38,371
Investments in associates		3,210	4,403
Available-for-sale financial assets	4-7	7,142	6,107
Derivative financial instruments	4-7	-	154
Loans and other receivables		476	1,442
Deferred tax assets		67,024	68,471
NON-CURRENT ASSETS		**229,149**	**265,867**
Non-current assets held for sale	5	31,522	-
Inventories		25,801	28,921
Trade and other receivables		596,841	608,867
Financial receivables		438	14
Derivative financial instruments	4-7	847	656
Current tax assets		6,298	6,647
Cash and cash equivalents		121,726	152,397
CURRENT ASSETS		**783,473**	**797,502**
TOTAL ASSETS		**1,012,622**	**1,063,369**

The accompanying notes 1 to 17 are an integral part of the interim condensed consolidated financial statements.

DURO FELGUERA, S.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (€ thousand)

EQUITY AND LIABILITIES	Note	At 30 June 2017 (Unaudited)	At 31 December 2016 (Audited)
Share capital	8	80,000	80,000
Accumulated exchange differences		(9,752)	(11,286)
Retained earnings and other reserves		45,073	48,786
EQUITY ATTRIBUTABLE TO SHAREHOLDERS		**115,321**	**117,500**
Non-controlling interests		2,794	3,671
EQUITY		**118,115**	**121,171**
DEFERRED INCOME		**6,944**	**6,929**
Borrowings	7	192,766	271,927
Derivative financial instruments	4-7	34	995
Deferred tax liabilities		12,759	12,206
Employee benefits	10	1,525	1,553
Provisions for other liabilities and charges	10	2,147	6,005
NON-CURRENT LIABILITIES		**209,231**	**292,686**
Borrowings associated with non-current assets held for sale	5	21,014	-
Borrowings	7	138,176	98,718
Derivative financial instruments	4-7	65	6,312
Trade and other payables		411,068	401,009
Current tax liabilities		4,096	6,512
Employee benefits		11,274	8,665
Provisions for other liabilities and charges	10	92,639	121,367
CURRENT LIABILITIES		**678,332**	**642,583**
TOTAL EQUITY AND LIABILITIES		**1,012,622**	**1,063,369**

The accompanying notes 1 to 17 are an integral part of the interim condensed consolidated financial statements.

DURO FELGUERA, S.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (€ thousand)

	Note	Six months ended 30 June 2017 (Unaudited)	Six months ended 30 June 2016 (Unaudited)
Revenue	3	319,161	334,064
Changes in inventories of finished goods and work in progress		2,745	(4,153)
Cost of sales		(212,222)	(192,601)
Gross profit		**109,684**	**137,310**
Employee benefits expense		(62,729)	(66,713)
Amortisation and depreciation	6	(5,082)	(4,016)
Operating expenses		(48,044)	(56,542)
Other gains/(losses) net		12,492	2,387
Operating profit/(loss)		**6,321**	**12,426**
Net finance income/(cost)		(10,066)	(10,721)
Gains/(losses) on disposal of financial instruments		195	(367)
Share of loss/(profit) of associates		(140)	52
Profit/(loss) before tax		**(3,690)**	**1,390**
Income tax expense	11	679	(2,489)
Profit/(loss) from continuing operations		**(3,011)**	**(1,099)**
Attributable to:			
Shareholders of the company		(1,904)	(1,796)
Non-controlling interests		(1,107)	697
Earnings/(loss) per share for the period from continuing operations attributable to shareholders of the company (€ per share)			
- Basic and diluted		(0.01)	(0.01)

The accompanying notes 1 to 17 are an integral part of the interim condensed consolidated financial statements.

DURO FELGUERA, S.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(€ thousand)

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Profit/(loss) for the period	**(3,011)**	**(1,099)**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Loss on revaluation of land and buildings	-	-
Other movements	(6,615)	42
Income tax relating to items that will not be reclassified	-	-
Items that may be reclassified to profit or loss		
Changes in the fair value available-for-sale financial assets	1,034	1,766
Cash flow hedges	6,108	1,992
Currency translation differences	2,118	4,591
Income tax relating to items that may be reclassified to profit or loss	(2,057)	(1,646)
Other comprehensive income, net of tax	**588**	**6,745**
Total comprehensive income	**(2,423)**	**5,646**
Attributable to:		
- Shareholders of the company	(1,770)	3,934
- Non-controlling interests	(653)	1,712
	(2,423)	**5,646**

The accompanying notes 1 to 17 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 (€ thousand)

	Equity attributable to owners of the parent						
	Capital	**Share premium and reserves (Note 1)**	**Treasury shares**	**Retained earnings**	**Valuation adjustments**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2016	**80,000**	**231,902**	**(87,719)**	**(68,889)**	**(20,210)**	**5,011**	**140,095**
Profit/(loss) for the period	-	-	-	(1,796)	-	697	(1,099)
Other comprehensive income	-	-	-	-	5,730	1,015	6,745
Total comprehensive income	**-**	**-**	**-**	**(1,796)**	**5,730**	**1,712**	**5,646**
Dividends paid (Note 9)	-	-	-	-	-	(6)	(6)
Other transactions with equity holders or owners	-	(1,148)	-	-	-	-	(1,148)
Transfers between equity items	-	(68,889)	-	68,889	-	-	-
Other changes	-	(135)	-	-	-	66	(69)
Balance at 30 June 2016 (unaudited)	**80,000**	**161,730**	**(87,719)**	**(1,796)**	**(14,480)**	**6,783**	**144,518**
Balance at 1 January 2017	**80,000**	**159,859**	**(87,719)**	**(18,197)**	**(16,443)**	**3,671**	**121,171**
Profit/(loss) for the period	-	-	-	(1,904)	-	(1,107)	(3,011)
Other comprehensive income	-	-	-	-	134	454	588
Total comprehensive income	**-**	**-**	**-**	**(1,904)**	**134**	**(653)**	**(2,423)**
Dividends paid (Note 9)	-	-	-	-	-	(14)	(14)
Other transactions with equity holders or owners	-	-	-	-	-	-	-
Transfers between equity items	-	(18,197)	-	18,197	-	-	-
Other changes	-	(409)	-	-	-	(210)	(619)
Balance at 30 June 2017 (unaudited)	**80,000**	**141,253**	**(87,719)**	**(1,904)**	**(16,309)**	**2,794**	**118,115**

(1) For the purposes of this statement, "Share premium and reserves" includes the following equity items on the balance sheet: Share premium, Reserves, Prior-year results, Other equity holder contributions, and Interim dividend from the parent company.

The accompanying notes 1 to 17 are an integral part of the interim condensed consolidated financial statements.

DURO FELGUERA, S.A. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(€ thousand)

	Six months ended 30 June	
	2017 (Unaudited)	**2016 (Unaudited)**
Cash flows from operating activities		
Profit/(loss) before tax	(3,690)	1,390
Adjustments for depreciation and amortisation	5,082	4,016
Other adjustments to profit/(loss):	(3,917)	(11,558)
Changes in operating assets and liabilities	(8,617)	(140,556)
Interest paid	(4,451)	(11,397)
Income tax received/(paid)	-	(84)
Net cash flows used in operating activities	**(15,593)**	**(158,189)**
Cash flows from investing activities		
Payments for investments		
Property, plant and equipment, intangible assets and investment properties	(1,386)	(7,812)
Proceeds from sale of investments		
Property, plant and equipment, intangible assets and investment properties	-	-
Other financial assets	5,765	2,205
Cash flows from investing activities		
Interest and dividends received	346	1,343
Net cash flows used in investing activities	**4,725**	**(4,264)**
Cash flows from financing activities		
Proceeds from (and payments for) equity instruments:		
Other movements	-	-
Proceeds from and payments for financial liability instruments		
Issue	7,202	50,911
Redemption and repayment	(25,829)	(9,881)
Dividends and interest on other financial instruments paid	-	(1,148)
Other cash flows from financing activities		
Other proceeds from/(payments for) financing activities	2,443	-
Net cash flows from/(used) in financing activities	**(16,184)**	**39,882**
Net foreign exchange difference	**(3,619)**	**(552)**
Net increase/(decrease) in cash and cash equivalents	**(30,671)**	**(123,123)**
Cash and cash equivalents at beginning of period	**152,397**	**268,566**
Cash and cash equivalents at end of period	**121,726**	**145,443**
Components of cash and cash equivalents at end of period		
Cash in hand and at banks	83,869	62,221
Other financial assets	37,857	83,222
Total cash and cash equivalents at end of period	**121,726**	**145,443**

The accompanying notes 1 to 17 are an integral part of the interim condensed consolidated financial statements.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

1. General information

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

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

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

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

The financial years of all Duro Felguera Group companies end on December 31.

Duro Felguera, S.A.'s separate and consolidated financial statements for 2016 were approved at the Annual General Meeting held on 22 June 2017.

The accompanying interim condensed consolidated financial statements of the Duro Felguera Group for the six months ended 30 June 2017 were prepared in accordance with IAS 34 *Interim Financial Reporting* and authorised for issue by the Board of Directors on 29 September 2017.

The interim condensed consolidated financial statements were subject to a limited review, but not audited.

2. Basis of presentation and other information

a) Basis of presentation, accounting policies and estimates

The accompanying interim condensed consolidated financial statements for the six months ended 30 June 2017 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 2016 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.

<u>Going concern assumption</u>

As indicated in the consolidated financial statements for the year ended 31 December 2016 and in Note 4.1, the Group's liquidity risk has increased, basically due to the enforcement of the guarantees of the Roy Hill Iron Ore project and the financing necessary to complete the Vuelta de Obligado and Carrington projects, which have led to higher drawdowns from available credit facilities and precluded the Company from servicing €23.2 million of its borrowings at maturity in 2017. Nevertheless, as at 30 June 2017, this amount had not fallen due (see Note 17). Also, as disclosed in those financial statements, the parent company is in talks with the financial institutions in the bank pool to match its liquidity needs and the maturity of the debt to its business plan, as shown in the "Independent Business Review" (IBR) carried out as part of the process by an independent third party between November 2016 and February 2017. This review was performed to assess the current situation and future prospects of the Company's business. Moreover, to strengthen its liquidity position so that the negotiations with the financial institutions will be successful, the parent company is exploring, together with its advisors, alternative measures to improve liquidity in the short and medium term. These include bringing in a strategic partner, disposing of non-core assets, and carrying out an organisational streamlining.

In this respect:

- Significant headway is being made in the negotiations begun in the fourth quarter of 2016 with the main banks in order to stabilise the company's debt and capital structure in the medium and long term. As part of this negotiation process, the company signed a standstill agreement that is currently in effect. The debt on the balance sheet subject to negotiation, which also includes trade guarantees, amounts to approximately €295 million. This process entails coordinated action with respect to debt restructuring, disposals, savings plans and reinforcement of the capital structure, with all related terms and conditions subject to negotiation at present. Proof that an overall refinancing solution has been achieved, the company and its main creditors signed a standstill agreement (see Note 17) under which the past-due amount of the debts will be not be callable until 31 July 2017, with tacit renewal of maturity until a deadline of 30 September 2017. At present, the extension of the standstill agreement accepted by the Board of Directors of the Company is being processed internally by the pertinent areas of the participating banks with a view to formalising it as quickly as possible, with effect from 1 October 2017 to 15 January 2018.

- Rothschild has been engaged to conduct a search for equity investors. So far, it has signed confidentiality agreements with a limited number of potential Spanish and foreign investors, providing them with an investment memorandum summarising the Company's core businesses and financial highlights. Potential investors are currently analysing the information and to date no negotiations on specific investment terms have been initiated.

- Non-core assets have been defined as those related to the Madrid office building and certain properties in Gijón and Oviedo not currently used by the Company. These assets have a carrying amount of €40 million. Of these assets, the Madrid building currently meets the requirement for classification as held for sale (see Note 5).

- An analysis has been performed of overheads and synergies across departments to optimise resources, and the disposals are expected to be carried out once the terms of the refinancing regarding amounts and repayments periods are agreed. The intention is to implement the measures within the next two years.

The directors of the parent company have prepared the accompanying interim condensed consolidated financial statements for the six months ended 30 June 2017 on a going concern basis in accordance with the favourable outlook for the conclusions of the negotiation process and the arrival of a strategic partner. Until the process is clear, there are reasonable doubts regarding the Company's ability to continue its business if an agreement with the financial institutions is not reached.

The accounting policies adopted in the preparation of the accompanying interim condensed consolidated financial statements are consistent with those followed in the Group's annual consolidated financial statements for the year ended 31 December 2016 (see Note 2), since the European Union has not yet endorsed any of the amendments issued by the IASB effective for the first time this year.

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

Standards, amendments and interpretations not effective but that may be early adopted in annual periods beginning on or after 1 January 2017

At the date of authorisation for issue of these interim condensed consolidated financial statements, the IASB and International Financial Reporting Interpretations Committee (IFRIC) had issued the following standards, amendments and interpretations that are not effective and that the Group has not early adopted:

- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 9 *Financial Instruments*

The Group is currently assessing the potential impact for the Group of the new standards, amendments and interpretations approved by the IASB but not yet effective:

IFRS 15 *Revenue from Contracts with Customers*

As of 1 January 2018, IFRS 15 will replace the following standards currently effective:

- 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 should be 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.

According to IFRS 15, revenue should be recognised as the performance obligations in the contract are satisfied. The standard also requires greater disclosures.

The Group is currently assessing the standard, the option of applying the standard at the transition date and the update of its internal policies in order to define the criteria for applying IFRS 15 to its business and the various types of contracts.

At the same time, it is performing a qualitative and quantitative analysis of the main changes in the new standard. In the second half of 2017, the quantitative analysis will be completed of the impacts of first-time application, which will be recognised at the transition date.

The main impacts identified relate primarily to the following:

- Identification of the various performance obligations in the contracts and the allocation of the transaction price. In relation to dual or instalment contracts, a single performance obligation is considered to exist, with the outcome recognised on a uniform basis during execution of the contract. With the new standard, the Group must assess, for each contract, several performance obligations (IFRS 15 p.22) and the allocation of prices based on the contracts, provided they are at arm's length. However, given the general characteristics of turnkey contracts (EPC) undertaken by the Group, a significant impact is not expected.

- Approval requirements in revenue recognition due to contract modifications and items subject to claims. IFRS 15 requires approval by the customer (IFRS 15 p. 18), which is stricter than the probability requirement in the current standard. In modifications or claims in which the customer has approved a change in the scope of the contracts, but has not yet determined the amount of the change, revenue is recognised to the extent that it is highly probable that a significant reversal will not occur. Considering the Group's existing policy for recognising modifications and claims, the standard is not expected to have a significant impact.

- Identification and recognition of increment costs of obtaining a contract (IFRS 15 p. 91) and of costs to fulfil a contract (IFRS 15 p. 95). IFRS 15 specifies that only costs identified as incremental costs may be capitalised, requiring detailed analysis of the costs of obtaining a contract with identification of the increment costs and the costs expected to be recovered. The Group is currently reviewing and analysing the potential impacts of this change. Nevertheless, the amount capitalised at present for this type of cost is not material.

- Establishment of a consistent method for recognising revenue in contracts with similar characteristics. The new standard requires application of a single method of recognising contract revenue and performance obligations in contracts with similar characteristics. Application of this rule will not imply a change in the method currently used by the Group.

Regarding IT systems, the current systems will be maintained, while certain controls established therein must be adapted.

IFRS 9 *Financial instruments*

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Group is currently assessing the main impacts, which relate to the following:

- Hedge accounting. The standard aims to align hedge accounting more closely with risk management. The new requirements take a principles-based approach. So far, the Group has not identified any impacts related to its current application of hedge accounting.

- Impairment of financial assets. IFRS 9 replaces the incurred losses model of IAS 39 with an expected losses model. Under the new standard, the loss allowance is measured at the amount of 12-month expected losses or lifetime expected losses when there are significant increases in risk.

- The Group is currently analysing the various approaches allowed under IFRS 9 and does not expect a significant impact, since it already has a procedure in place that considers potential expected losses and the credit quality of its customers.

- Classification and measurement of financial assets. The categories of the new classification are: financial assets measured at amortised cost, financial assets at fair value through profit or loss and financial assets at fair value through equity. Regarding the measurement of financial liabilities, there are no change in IFRS 9 from IAS 39, except regarding own credit risk in the fair value option, which is recognised in equity.

From the preliminary analysis of this phase, the Group does not expect any significant impact.

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 authorisation for issue of these interim condensed consolidated financial statements, 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 16 *Leases*
- IAS 7 (Amendment) *Disclosure Initiative*
- IAS 12 (Amendment) *Recognition of Deferred Tax Assets for Unrealised Losses*
- IFRS 15 (Amendment) *Revenue from Contracts with Customers*
- IFRS 2 (Amendment) *Classification and Measurement of Share-based Payment Transactions*
- IFRS 4 (Amendment) *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
- Annual improvements to IFRSs 2014 - 2016 Cycle:
  *IFRS 1 *First-time adoption of International Financial Reporting Standards*
  *IFRS 12 *Disclosures of Interests in Other Entities*
  *IAS 28 *Investments in Associates and Joint Ventures*
- IAS 40 (Amendment) *Transfers of Investment Property*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- IFRIC 23 *Uncertainty over Income Tax Treatments*

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.

In the six months ended 30 June 2017, the Group did not change any estimates from those used in the 2016 consolidated financial statements except the following:

- Bolivar exchange rate

The Group has chosen to use the new DICOM exchange rate (VEF2,640.00 /USD) for the translation of the financial statements of its subsidiaries domiciled in Venezuela, as it considers that to be the most appropriate exchange rate in accordance with IAS 21.

The new DICOM is a mechanism of awards via auctions with capital and public and private enterprises, the internal operation of which is set out in Exchange Agreement No. 38 of 19 May 2017. Currencies are awarded automatically, with the system determining the prevailing exchange rate as the lowest bid price assigned, fluctuating within a band determined by the central bank, which is adjusted periodically. Since the regime was implemented in May to 30 June 2017, five currency auctions were held.

The net exposure of ongoing projects to the VEF at 30 June 2017 is €1.1 million (31 December 2016: €1.1 million).

- Receivables

“Trade and other receivables” includes the past due balance related to the “Termocentro” project for €82,703 thousand (31 December 2016: €93,334 thousand). In the first half of 2017, receivables from this project amounted to €15,000 thousand, while €5,000 thousand was invoiced for fulfilment of a contractual milestone.

In accordance with IAS 39, the Group assessed the recoverability of this amount based on the following considerations:

- Payments received in 2017 and up to the date of authorisation for issue of the accompanying interim condensed consolidated financial statements of €15 million.
- The customer is a public institution of the government of Venezuela, whose purpose is to guarantee electricity supply, so the debt is comparable to sovereign debt.
- On 12 April 2017, the government of Venezuela redeemed sovereign bonds at maturity for USD 2,058 million.

Based on this analysis, no impairment loss on the receivable was recognised. The Group will consider the potential impacts that could affect the analysis of the recoverability of the receivable arising from the measures adopted by the US government on 25 August, which could lead to financial restrictions on the Venezuelan government's currency transactions in future.

This line item also includes the past due balance related to the “Vuelta de Obligado” project, for €10,751 thousand (31 December 2016: €12,846 thousand). This entails amounts withheld until fulfilment of the outstanding milestones. There are no doubts regarding collection since the Company considers that the event will be completed.

The ageing analysis of past-due amounts under “Trade and other receivables” is as follows:

	€000	
	30 June 2017	**31 December 2016**
Up to 3 months	17,170	21,692
Between 3 and 6 months	1,309	10,294
Between 6 months and 1 years	5,378	26,128
More than 1 year	132,818	158,939
	156,675	**217,053**

Receivables also include mainly €88,974 thousand and €17,138 thousand for guarantees unduly enforced by the customers of the Roy Hill Iron Ore project and Gangavaram por Limited, respectively, with which the Company is involved in several ongoing lawsuits (Note 15). Based on rulings issued in the legal proceedings so far and the opinion of legal advisors, the directors consider the amounts to be recoverable.

- Revenue recognition

At 30 June 2017, the Group recognised claims included in the selling price amounting to €42.6 million, related to ARP 430 million plus interest at Banco de la Nación Argentina's asset rate (31 December 2016; €39.6 million). The total amount of claims submitted at the closing rate was €137 million, equivalent to ARP 2,595 million (31 December 2016: €147 million, equivalent to ARP 2,456 million). In addition, claims for the Djelfa project have been recognised amounting to €22.6 million in relation to contractual costs incurred for the extension of the deadline caused and recognised formally by the customer.

Also worth noting, in accordance with IAS 34, income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected by the Group for the full financial year.

The preparation of the interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions in applying its accounting policies and affecting the amounts of assets, liabilities, revenues and expenses. These estimates were made on the basis of the best information available at the date of preparation of the accompanying financial statements on the events analysed. However, events may take place in the future that make it necessary to revise these estimates (upwards or downwards) at the end of 2017. In accordance with IAS 8, this would be done prospectively, with the impact of the change in estimates recognised in the consolidated income statement.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

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 2016 annual consolidated financial statements.

The first half of 2017 featured the following removals from the scope of consolidation, none of which had a material impact on the accompanying interim condensed consolidated financial statements:

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

There were no changes in the scope of consolidation in the first half of 2016.

c) Comparative information

The information contained in the accompanying financial statements for the first half of 2016 is presented solely for comparison with the information for the six months ended 30 June 2017.

d) Seasonality of operations

The Group's business does not show any significant degree of seasonality. Accordingly, the breakdown of revenue is broadly even throughout the year.

e) Materiality

In accordance with IAS 34, the Group assessed materiality in relation to the financial statements when determining the information to disclose in the various financial statement items and other matters.

3. Segment information

Note 5 to the Group's consolidated financial statements for the year ended 31 December 2016 sets out the criteria used by the Group to define its operating segments.

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

Segment information provided to the Board of Directors for the segments for which financial information is reported at 30 June 2017 and 2016 is as follows:

	€000							
	For the six months ended 30 June 2017							
	Energy	**Mining & Handling**	**Oil & Gas**	**Specialised Services**	**Manufacturing**	**Other**	**Inter-group transactions**	**GROUP**
Revenue from external customers	140,226	37,375	35,124	69,529	27,625	9,282	-	319,161
Inter-segment revenue	203	39	297	5,389	-	15,199	(21,127)	-
Total revenue	**140,429**	**37,414**	**35,421**	**74,918**	**27,625**	**24,481**	**(21,127)**	**319,161**
Interest income	162	125	39	15	5	7	-	353
Interest expense	(1,640)	(82)	-	(35)	(159)	(3,592)	-	(5,508)
Change in fair value of financial instruments	(11)	-	(1,293)	-	-	12	-	(1,292)
Exchange gains/(losses)	502	(431)	491	(1,743)	(695)	(1,743)	-	(3,619)
EBITDA	2,957	2,083	1,853	5,250	(1,453)	(2,903)	-	7,787
Profit/(loss) before tax	1,388	2,084	100	5,042	(2,991)	(9,313)	-	(3,690)

	€000							
	For the six months ended 30 June 2016							
	Energy	**Mining & Handling**	**Oil & Gas**	**Specialised Services**	**Manufacturing**	**Other**	**Inter-group transactions**	**GROUP**
Revenue from external customers	148,138	62,707	26,261	44,906	39,237	12,815	-	334,064
Inter-segment revenue	218	-	100	26,603	525	15,285	(42,731)	-
Total revenue	**148,356**	**62,707**	**26,361**	**71,509**	**39,762**	**28,100**	**(42,731)**	**334,064**
Interest income	24	559	38	78	12	631	-	1,342
Interest expense	(522)	(1,477)	(8)	(7,308)	(121)	(1,961)	-	(11,397)
Change in fair value of financial instruments	8	50	(13)	-	-	(527)	-	(482)
Exchange gains/(losses)	200	493	(373)	(984)	(51)	163	-	(552)
EBITDA	(13,890)	10,329	2,110	11,162	3,737	2,444	-	15,892
Profit/(loss) before tax	(14,436)	9,404	2,132	3,703	2,285	(1,698)	-	1,390

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

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

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

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

	Six months ended 30 June	
	2017	**2016**
Operating profit/(loss)	6,321	12,426
Amortisation and depreciation	5,082	4,016
Impairment and losses	3	2
Exchange gains/(losses)	(3,619)	(552)
Net carrying amount	**7,787**	**15,892**

The Group operates mostly internationally at present. The following table presents the breakdown of revenue at 30 June 2017 and 2016 by geographical area:

	Six months ended 30 June			
Geographical area	**2017**	**%**	**2016**	**%**
- Spain	33,312	10.44%	47,556	14.24%
- Latin America	148,629	46.57%	164,823	49.34%
- Europe	53,704	16.83%	57,224	17.13%
- Africa and the Middle East	70,961	22.23%	49,489	14.81%
- Asia Pacific	10,221	3.20%	11,634	3.48%
- Other	2,334	0.73%	3,338	1.00%
Total	**319,161**	**100%**	**334,064**	**100%**

Through 30 June 2017, the Energy segment recorded sales totalling €37,000 thousand in Latam with a single customer that represented over 10% of the Group's revenue (30 June 2016: no segment recorded sales with a single customer representing over 10% of total revenue).

In the same period, revenue from significant external customers in Argentina, Algeria, Mexico and Spain amounted to €48.6 million, €43.7 million, €42.3 million and €33.3 million, respectively (30 June 2016: €42.4 million, €31.1 million and €47.6 million in Argentina, Mexico and Spain, respectively).

4. Financial risk management

4.1 Financial risk factors

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

The interim condensed consolidated financial statements do not include all the information and disclosures on financial risk management required for annual financial statements, so they should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

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

Liquidity risk:

Liquidity risk has increased, basically due to enforcement of the guarantees of the Roy Hill Iron Ore project and the financing necessary to complete the Vuelta de Obligado and Carrington projects, which have led to higher drawdowns from available credit facilities and precluded the Company from servicing €23.2 million of its borrowings at maturity in 2017. However, as at 30 June 2017, this amount had not fallen due (see Note 17). However, as indicated in Note 2, the Company is in negotiations with financial institutions and exploring, together with its advisors, alternative measures to improve liquidity in the short and medium term, such as bringing in a strategic partner, disposing of non-core assets, and carrying out an organisational streamlining, all to match its liquidity needs and the maturity of its debt to its business plan.

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

	30 June 2017	**31 December 2016**
Borrowings and derivatives	(351,208)	(377,142)
Less: Cash and cash equivalents	121,726	152,397
Net cash position	(229,482)	(224,745)
Undrawn credit lines	700	925
Total liquidity reserves	**(228,782)**	**(223,820)**

At 30 June 2017, “Cash and cash equivalents” included €42,859 thousand backed the issue of guarantees for projects and was restricted (31 December 2016: €60,659 thousand). During the period, an amount of €17,800 was unpledged at maturity.

4.2 Fair value estimation

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

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

The following table presents the Group’s assets and liabilities measured at fair value at 30 June 2017:

	€000			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets:				
- Equity securities		7,142	-	7,142
Hedging derivatives	-	847	-	847
Total assets	**-**	**7,989**	**-**	**7,989**

	€000			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities				
Liabilities at fair value through profit or loss:				
- Trading derivatives	-	34	-	34
Hedging derivatives	-	65	-	65
Total liabilities	**-**	**99**	**-**	**99**

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2016.

	€000			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets:				
- Equity securities	-	6,107	-	6,107
Hedging derivatives	-	810	-	810
Total assets	**-**	**6,917**	**-**	**6,917**

	€000			
	Level 1	**Level 2**	**Level 3**	**Total balance**
Liabilities				
Liabilities at fair value through profit or loss:				
- Trading derivatives	-	46	-	46
Hedging derivatives	-	7,261	-	7,261
Total liabilities	**-**	**7,307**	**-**	**7,307**

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

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

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

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

In 2017, there have been no significant changes in the economic or business circumstances affecting the fair value of the Group's financial assets and financial liabilities.

5. Assets and liabilities classified as held for sale

The breakdown of non-current assets held for sale at 30 June 2017 and 31 December 2016 is as follows:

	€000	
	30 June 2017	31 December 2016
Property, plant and equipment	31,522	-

In the first half of 2017, under the scope of the non-core asset disposal plan and having complied with the requirements in prevailing accounting regulations, the office building in Madrid acquired on 29 May 2014 was reclassified as a non-current asset held for sale. Borrowings related to assets classified as held for sale amounting to €21,014 thousand relate to a leasing arrangement with an initial term of 13 years and a 1-year grace period from the date of acquisition. The applicable interest rate is 3.3%.

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

The changes in these balance sheet items in the six months ended 30 June 2017 are as follows:

	€000		
	Intangible assets	Property, plant and equipment	Investment properties
Cost			
Balances at 1 January 2017	**55,864**	**195,457**	**49,844**
Additions - internally developed	1,073	-	-
Additions	334	1,610	-
Transfers to non-current assets held for sale (Note 5)	-	(32,262)	-
Assets derecognised due to disposal or other means	(5)	(1,624)	-
Transfers and other movements	1	(138)	-
Balances at 30 June 2017	**57,267**	**163,043**	**49,844**
Accumulated depreciation			
Balances at 1 January 2017	**(17,493)**	**(80,228)**	**(14,166)**
Provisions charged to profit or loss	(1,790)	(3,068)	(224)
Elimination of depreciation	-	1,319	-
Transfers to non-current assets held for sale (Note 5)	-	740	-
Transfers and other movements	(3)	47	-
Balances at 30 June 2017	**(19,286)**	**(81,190)**	**(14,390)**
Impairment losses			
Balances at 1 January 2017	**-**	**(1,051)**	**(2,937)**
Provisions for impairment	-	(3)	-
Transfers and other movements	-	-	-
Balances at 30 June 2017	**-**	**(1,054)**	**(2,937)**
Property, plant and equipment and investment properties, net			
Balances at 1 January 2017	**38,371**	**114,178**	**32,741**
Balances at 30 June 2017	**37,981**	**80,799**	**32,517**

At 30 June 2017, intangible assets included goodwill of €15,599 thousand arising from the acquisitions of Núcleo de Comunicaciones y Control, S.L. for €12,313 thousand and Epicom, S.A. for €3,286 thousand (at 30 July 2016:

€15,599 thousand).

Additions in the period related mainly to rotating and welding equipment for Duro Felguera Calderería Pesada's facilities in Gijón, amounting to €1,141 thousand. At 30 June 2016, additions to assets related mainly to the implementation of the new integrated accounting and management system, for €6,873 thousand, construction work on the new foundry at Duro Felguera Rail's facilities in Mieres and fitting out work of the Madrid office building, for €4,130 thousand and €601 thousand, respectively.

At 30 June 2017, there were commitments to purchase assets amounting to €647 thousand (30 June 2016: €2,241 thousand).

The movement in these balance sheet items in the six months ended 30 June 2016 were as follows:

	€000		
	Intangible assets	**Property, plant and equipment**	**Investment properties**
Cost			
Balances at 1 January 2016	**47,209**	**185,093**	**49,813**
Additions - internally developed	804	-	-
Additions	6,783	5,513	-
Assets derecognised due to disposal or other means	(856)	(513)	-
Transfers and other movements	-	(71)	-
Balances at 30 June 2016	**53,940**	**190,022**	**49,813**
Accumulated depreciation			
Balances at 1 January 2016	**(15,260)**	**(74,910)**	**(13,760)**
Provisions charged to profit or loss	(872)	(2,927)	(217)
Elimination of depreciation	43	372	-
Transfers and other movements	1	68	-
Balances at 30 June 2016	**(16,088)**	**(77,397)**	**(13,977)**
Impairment losses			
Balances at 1 January 2016	**-**	**(1,056)**	**(2,937)**
Provisions for impairment	-	**-**	**-**
Transfers and other movements	-	**6**	-
Balances at 30 June 2016	**-**	**(1,050)**	**(2,937)**
Property, plant and equipment and investment properties, net			
Balances at 1 January 2016	**31,949**	**109,127**	**33,116**
Balances at 30 June 2016	**37,852**	**111,575**	**32,899**

7. Financial instruments

a) Financial assets

The breakdown of financial assets (excluding trade receivables, other receivables, and cash and cash equivalents) at 30 June 2017 and 31 December 2016, by nature of the asset and category, is as follows:

	€000			
	At 30 June 2017			
	Financial assets at fair value through profit or loss	Held-to-maturity investments	Available-for-sale financial assets	Hedging derivatives
Financial assets:				
Nature / Category				
Equity instruments	-	-	7,142	-
Derivatives	-	-	-	-
Long-term / non-current	**-**	**-**	**7,142**	
Derivatives	-	-	-	847
Short-term / current	**-**	**-**	**-**	**847**
Total financial assets at 30 June 2017	**-**	**-**	**7,142**	**847**

	€000			
	At 31 December 2016			
	Financial assets at fair value through profit or loss	Held-to-maturity investments	Available-for-sale financial assets	Hedging derivatives
Financial assets:				
Nature / Category				
Equity instruments	-	-	6,107	-
Derivatives	-	-	-	154
Long-term / non-current	**-**	**-**	**6,107**	**154**
Derivatives	-	-	-	656
Short-term / current	**-**	**-**	**-**	**656**
Total financial assets at 31 December 2017	**-**	**-**	**6,107**	**810**

b) Financial liabilities

The breakdown of financial liabilities (excluding trade and other payables) at 30 June 2017 and 31 December 2016, by nature of the liability and category, is as follows:

	€000		
	At 30 June 2017		
	Loans and borrowings	**Financial liabilities at fair value through profit or loss**	**Hedging derivatives**
Financial liabilities:			
Nature / Category			
Bank borrowings (excluding financial lease liabilities)	181,951	-	-
Finance lease liabilities	-	-	-
Derivatives	-	34	-
Other financial liabilities	10,815	-	-
Long-term / non-current	**192,766**	**34**	**-**
Bank borrowings (excluding financial lease liabilities)	132,086	-	-
Finance lease liabilities	22,539	-	-
Derivatives		-	65
Other financial liabilities	4,565	-	-
Short-term / current	**159,190**	**-**	**65**
Total financial liabilities at 30 June 2017	**351,956**	**34**	**65**

	€000		
	At 31 December 2016		
	Loans and borrowings	**Financial liabilities at fair value through profit or loss**	**Hedging derivatives**
Financial liabilities:			
Nature / Category			
Bank borrowings (excluding financial lease liabilities)	243,109	-	-
Finance lease liabilities	20,110	-	-
Derivatives	-	46	949
Other financial liabilities	8,708	-	-
Long-term / non-current	**271,927**	**46**	**949**
Bank borrowings (excluding financial lease liabilities)	89,230	-	-
Finance lease liabilities	3,779	-	-
Derivatives	-	-	6,312
Other financial liabilities	5,709	-	-
Short-term / current	**98,718**	**-**	**6,312**
Total financial liabilities at 31 December 2016	**370,645**	**46**	**7,261**

At 30 June 2017, the Group repaid €25.8 million of its financial debt and did not service €23.2 million upon maturity. However, after the end of the period (Note 17), it signed a standstill agreement over €20.7 million under which the past-due amount of the debts will be not be callable until 31 July 2017, with tacit renewal of maturity until a final deadline of 30 September 2017. In addition, for the remaining €2.5 million, on 3 August 2017 a waiver was granted, approving the extension of the original contractual maturity until 7 October 2017.

Of unpaid bank borrowings, €15.8 million related to a total debt of €72.8 million. Therefore, €57 million were reclassified to current liabilities. The remaining €7.4 million unpaid borrowings relates to a total debt of €11.4 million.

Of the total €336,576 thousand of bank borrowings and finance lease liabilities, negotiations are underway for €295,121 thousand between the Group and the financial institutions (Note 2), which are also the subject of trade guarantees.

At present, the extension of the standstill agreement accepted by the Board of Directors of the Company is being processed internally by the pertinent areas of the participating banks with a view to formalising it as quickly as possible, with effect from 1 October 2017 to 15 January 2018.

The main financial debt relates to the finance leases of the Madrid office building for €21,014 thousand (reclassified in the period to liabilities associated with non-current assets held for sale (Note 5) and the Rodríguez Sampedro, González Besada and Marques de Santa Cruz offices for €1,525 thousand euros, respectively, in addition to loans and credit facilities, mainly:

- €55,000 thousand loan (2016: €55,000 thousand) with a single maturity on 17 March 2019.
- €23,806 thousand loan (2016: €24,000 thousand) with a five-year term and annual repayments.
- €48,543 thousand loan (2016: €50,000 thousand) with a five-year term and a three-year grace period, with the first repayment due 3 February 2017.
- €30,000 thousand loan arranged on 26 October 2015 with a five-year term and a two-year grace period, with the first repayment due 26 October 2017.
- €25,000 thousand loan arranged on 26 October 2015 with a five-year term and a two-year grace period, with the first repayment due 26 October 2017.
- €25,000 thousand loan arranged on 30 October 2015 with a five-year term and a two-year grace period, with the first repayment due 30 October 2017.
- €10,000 thousand loan arranged on 27 October 2015 with a five-year term and a two-year grace period, with the first repayment due 27 October 2017.
- €25 million loan (2016: €35,000 thousand) with annual repayments of €5 million until 2020 and €10 million until 2021.

None of these loans is subject to compliance with any covenant.

- A €5,054 thousand syndicated loan (2016: €5,054 thousand) relating to the fair value of the debt with Núcleo de Comunicaciones y Control, the main characteristics of which are as follows:

    - Repayment of the amount in five annual instalments commencing in June 2014. Current liabilities on the consolidated balance sheet at 30 June 2017 included the entire outstanding amount of €5,054 thousand.
    - Interest accrues at the 3-month Euribor rate plus a spread of 240 basis points.

  The following circumstances will trigger early repayment:

    - Change of control of the borrower: if Duro Felguera's interest in Comunicaciones y Control, S.L.'s capital falls to below 75%.
    - Sale of assets: If Núcleo de Comunicaciones y Control sells assets, any proceeds above €500 thousand must go to the early repayment of the financing.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

- If Núcleo de Comunicaciones y Control receives any compensation under an insurance contract (excluding third party liability), the borrower undertakes to apply the entire amount to early repayment.

- If the solvency of Núcleo de Comunicaciones y Control deteriorates or the financial terms of the contract change.

The remaining bank borrowings are mainly credit accounts maturing in 2017 and 2018.

Bank borrowings are not secured, except for €24 thousand (2015: €41 thousand) relating to mortgage loans.

8. Equity

a) Capital

Duro Felguera, S.A.'s share capital is represented by 160 million fully subscribed and paid shares in book-entry form with a par value of €0.5 each. All of the shares are admitted for listing on the Madrid, Barcelona and Bilbao Stock Exchanges, and have the same voting and dividend rights.

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	
	30 June 2017	30 June 2016
Inversiones Somió, S.L.	24.39%	24.39%
Inversiones Río Magdalena, S.L.	10.03%	10.03%
Onchena, S.L.	5.06%	5.06%

b) Treasury shares

At the parent company's Ordinary Annual General Meeting, held on 22 June 2017, authorisation was given to acquire up to a certain amount of treasury shares, at a minimum price of €0.5 per share and a maximum price of €12 per share, provided that the shares, together with those already held by the parent company or subsidiaries, did not exceed 10% of the parent company's share capital. This authorisation was granted for a period of no more than five years from the date on which the resolution was adopted.

At 30 June 2017, the parent company held 16,000,000 treasury shares for an amount of €87,719 thousand (31 December 2016: €87,719 thousand).

9. Dividends

In the six months ended June 30, 2017 and 2016, the Company did not distribute any dividends.

10. Provisions

The breakdown of "Provisions" in the condensed consolidated balance sheets at 30 June 2017 and 31 December 2016 is as follows:

	€000	
	30 June 2017	31 December 2016
Provisions for pensions and similar obligations	**1,525**	**1,553**
Other pension funds	1,525	1,553
Provisions for contingent liabilities and commitments	**94,786**	**127,372**
Provisions for contingent liabilities	94,786	127,372
	96,311	**128,925**

The movements in the six months ended 30 June 2017 and 2016 in "Provisions" were as follows:

	€000			
	Pensions and similar obligations	Contingent liabilities and commitments	Other provisions	Total
Balance at 1 January 2017	**1,553**	**119,185**	**8,187**	**128,925**
Provisions charged to profit or loss:				
Provisions	17	4,084	1,600	5,701
Reversals credited to profit or loss:				
Reversals	-	(11,979)	(4,867)	(16,846)
Payments or amounts used:				
Payments of pensions	(51)	-	-	(51)
Other payments	-	(18,572)	(78)	(18,650)
Other movements	6	(2,758)	(16)	(2,768)
Balance at 30 June 2017	**1,525**	**89,960**	**4,826**	**96,311**

Charges in the first half of 2017 to provisions for contingent liabilities and commitments related primarily to charges for guarantees of €1,613 thousand and for enforcement of guarantees with suppliers for €1,362 thousand. Unused amounts reversed related mainly to amounts used of provisions for losses made as the related projects were executed, for €6,266 thousand, and the cancellation of guarantees for €5,713 thousand. Payments or amounts used related mainly to application of the penalty in the Carrington project for €18,560 thousand.

The breakdown of the provision for contingent liabilities and commitments is as follows: provision for warranties of €19.9 million (none of which for individual projects is significant), provision for penalties of €5.6 million (mainly the Carrington project) and the provision for losses of €2.4 million. Also included are the provisions set aside for the Roy Hill project for €61 million (Note 15).

	€000			
	Pensions and similar obligations	Contingent liabilities and commitments	Other provisions	Total
Balance at 1 January 2016	**1,595**	**113,174**	**11,251**	**126,020**
Provisions charged to profit or loss:				
Provisions	-	19,031	961	19,992
Reversals credited to profit or loss:				
Reversals	-	(18,117)	(222)	(18,339)
Payments or amounts used:				
Payments of pensions	(107)	-	-	(107)
Other payments	-	-	(291)	(291)
Other movements	(15)	(352)	(1,138)	(1,505)
Balance at 30 June 2016	**1,473**	**113,736**	**10,561**	**125,770**

Charges in the first half of 2016 to provisions for contingent liabilities and commitments related primarily to the provision for losses on the Carrington project for €14,427 thousand and provisions for warranties of €1,851 thousand. Unused amounts reversed related mainly to amounts used of provisions for losses made as the related projects were executed.

11. 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 six months ended 30 June 2017 was 18.40% (six months ended 30 June 2016: 179.05%). The increase in income tax expense was due primarily to the expense arising on the profit of the Spanish tax group. Losses obtained in foreign operations are not eligible for capitalisation.

The Group's deferred tax assets include €38 million related to the recognition of tax losses and credits. Accumulated losses are due primarily to the Vuelta de Obligado and Carrington projects, which is not an underlying issue, since the Group has a history of solid profits. The Group performed an analysis of the recoverability of this amount based on the expected future profits of the current portfolio and future contract wins taking into consideration the Company’s contract history. The time horizon used for the recoverability of the deferred tax asset was 10 years, during which it may be used or applied. The current portfolio covers up to three years.

12. Related party transactions

The following table presents the amounts recognised in the condensed consolidated balance sheet at 30 June 2017 and in the consolidated income statement for the six months ended 30 June 2017 arising from related party transactions, in accordance with Order EHA/3050/2004, of 15 September.

	€000			
	Significant shareholders	**Directors and executives**	**Other related parties**	**Total**
Income and expenses:				
Management or cooperation agreements	-	7	-	7
Expenses	**-**	**7**	**-**	**7**

	€000			
	Significant shareholders	**Directors and executives**	**Group employees, companies or entities**	**Total**
Other transactions:				
Dividends and other benefits distributed	-	-	-	-
	-	**-**	**-**	**-**

The amounts recognised in the interim condensed consolidated balance sheet at 30 June 2016 and in the consolidated income statement for the six months ended 30 June 2016 arising from related party transactions are as follows:

	€000			
	Significant shareholders	**Directors and executives**	**Other related parties**	**Total**
Income and expenses:				
Management or cooperation agreements	-	272	-	272
Expenses	**-**	**272**	**-**	**272**

	€000			
	Significant shareholders	Directors and executives	Group employees, companies or entities	Total
Other transactions:				
Dividends and other benefits distributed	641	-	-	641
	641	**-**	**-**	**641**

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

a) Board of Directors' remuneration:

The breakdown of the remuneration accrued by members of the parent's Board of Directors for their membership of the Board of Directors, by item, in the six months ended 30 June 2017 and 2016 is as follows:

	€000	
Remuneration item:	**30 June 2017**	**30 June 2016**
Fixed remuneration	309	416
Variable remuneration	-	-
Attendance fees and other remuneration	240	310
	549	**726**

Directors did not receive any other benefits.

b) Remuneration of senior executives

For the preparation of interim condensed consolidated financial information, senior executives include the 12 employees comprising the Management Committee during the period. The Management Committee is currently composed of 11 members following the departure of one (30 June 2016: 10 members). Executives are considered to be individuals in the Group who, effectively or legally, perform senior management duties under the direct supervision of the Group's management body or executive committees, or its chief executive officers. The breakdown of the remuneration accrued by members of senior management, excluding members of the Board of Directors, in the six months ended 30 June 2017 and 2016 is as follows:

	€000	
	30 June 2017	**30 June 2016**
Total remuneration paid to senior executives	1,409	1,257

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (€ thousand)

14. Average number of employees

The distribution of the Group's average headcount in the six months ended 30 June 2017 and 2016 is as follows:

	No. of employees	
	30 June 2017	**30 June 2016**
Average number of employees	**2,269**	**2,362**
Men	1,906	2,012
Women	363	350

The Group's average headcount at 30 June 2017 was 1,061 employees on permanent employment contracts and 1,208 on temporary employment contracts (30 June 2016: 1,036 and 1,326, respectively).

15. Contingencies

At 30 June 2017, the Group had extended guarantees to third parties amounting to €840,952 thousand (31 December 2016: €733,018 thousand). Group management considers that the risks of litigation, arbitration and claims are reasonably covered by the provisions recognised in the financial statements at 30 June 2017, and does not expect any additional liabilities to arise.

Duro Felguera Australia is party to various legal proceedings against a customer for breach of contract under the Roy Hill Iron Ore (Australia) project. Certain claims have been filed through "Adjudications" for additional work performed and payment of work already carried out. To date, the "adjudications" have been resolved in favour of Duro Felguera, although the customer has appealed. On 22 August 2017, the hearing was held for all "Adjudications," although a ruling is not expected to be issued before the end of the year.

On 31 December 2015, the customer incorrectly enforced performance bonds amounting to €46 million. In the first half of 2016, the customer enforced another €42 million of performance bonds. The amount of the bonds enforced has been paid in full and recognised as a receivable with Samsung, C&T, since the scope of the project consists mainly of the supply of equipment, mostly outsourced, and it has "back to back" contractual provisions in our sub-contractor agreements allowing for compensation in the contract, whereby if Duro Felguera is in breach, this would be passed on to the third parties.

The Group has set aside a provision of €44 million to cover the risk of an outflow of resources to settle the final obligations with subcontractors related to modifications and scopes of the projects and subject to the resolution of the arbitration claims. Given the positive assessment made by our legal advisors regarding the claim with Samsung, the outflow of resources is considered remote. Accordingly, a provision was recognised in accordance with IAS 37. Also related to this project, a trade receivable was recognised under assets for €5 million invoiced and pending receipt for the project (the amount is past due but not impaired), in addition to an amount of €25 million for completed work pending billing, expected to be invoiced when the litigation with this customer is concluded. Liabilities includes a payable to suppliers of €20.4 million and a provision for the enforcement of guarantees with suppliers for €17 million.

In sum, the Group recognised assets related to this project for a total of €120 million related to guarantees enforced and work completed and not paid. This amount, in the unlikely event that DF is not paid by the customer, would be recoverable under the "back to back" provisions with suppliers. Based on these terms and conditions, the Company reported claims to its suppliers for €154 million already incurred as project costs. This will be recovered with the actual amounts recognised under liabilities of €81 million (for provisions, guarantees enforced and balances with suppliers), €16 million in guarantees not enforced and the remainder by applying the claims in accordance with the "back to back" provisions from suppliers.

On 17 March 2016, a claim was submitted to the Arbitration Court of Singapore against a customer. This is a legal arbitration to which UNCITRAL arbitration rules apply and is still ongoing. The next step involved Samsung presenting an amendment to its claim before 30 June 2017 and supporting evidence. It did so on that date, but added little new to what it had already alleged up to that date. The parties have until 15 December to present their evidence and expert reports. This is the deadline for submitting preliminary allegations before the final hearing, slated for February 2018. The arbitration includes total claims of €204.1 million, comprising the request for reimbursement of guarantees unduly enforced under the old and new contract, plus completed work not paid under the new contract, completed work not paid outside the contract (the total amount includes the claim filed through adjudications, since they are two different channels compatible with the claim, whereby arbitration is the definitive and final channel, and adjudication is the preliminary channel to discern which of the parties owns certain money for completed work not paid while the arbitration proceedings are being conducted). Nevertheless, with the arbitration having been initiated, it is unlikely that Duro Felguera's liability will increase substantially. Samsung already claimed the maximum amount of "Liquidated Damages" possible in accordance with its interpretation of the agreement, which is limited to 10% of the contract price. The directors consider that the provision recognised covers that maximum amount of risk for Duro Felguera and do not expect any additional liabilities to arise that might have a significant effect on the accompanying interim condensed consolidated financial statements.

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 ARP631 million (approximately €34.8 million) at present.
- Claim for technical modifications to the original project made at the customer's request, amounting to ARP560 million (approximately €30.9 million) at present.
- Claim for losses caused by the sudden lack of representativeness in the scheme for recalculating prices, amounting to ARP631 million (approximately €34.8 million).
- Claim for additional measures adopted to prevent damage and higher costs arising from the default by Central Vuelta de Obligado, amounting to ARP773 million (approximately €42.7 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 (agreed for 28 February 2018) to conclude the claims filed. If after the suspension no agreement is reached, the parties will be free to continue with the arbitration proceedings.

As part of this project, a contingent liability was recognised related to arbitration before the Buenos Aires Stock Exchange, in which FAINSER, the part of the temporary joint venture, is claiming, as subcontractor, amounts for various items for a total of USD5,814,686 and ARP514,814,518. At the same time, Duro Felguera Argentina has filed a claim against FAINSER for an amount between ARP72,758,074 and ARP105,153,312.04. The period for providing evidence has concluded and the parties now have until 28 September 2017 to present their cases. Once the cases have been presented, the Courts will set the date by which it will issue a final decision.

The Group is involved in an arbitration in India with a customer of the GPLII project claiming guarantees enforced and unpaid invoices for €36,088 thousand. The process is pending hearing, with a final decision expected to be given around the end of 2017. 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 €4,896 thousand has been recognised. 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.

Subsidiary Felguera Grúas India is involved in an arbitration in India with a customer of the Krishna Port project claiming guarantees enforced and unpaid invoices for €8,277 thousand. Witness testimonies were given in the period, with closing arguments expected to be made in October 2017, although the financial decision may come in March 2018. The maximum penalty under the contract for "Liquidated Damages" is 10%, for which a provision of €723 thousand has been recognised. 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.

16. 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, the Company received a proposal for settlement of income tax for €101 million, plus €22.4 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 against the settlement agreement notified on 27 July 2017.

In addition, on 2 August 2017, the Spanish taxation authorities (Agencia Estatal de Administración Tributaria) notified UTE Termocentro of a proposed resolution of sanction proceedings for €23 million. The proposed sanction is based on the authorities' discrepancy regarding the taxable income charged by UTE Termocentro to its members. Allegations against the proposed sanction were filed with the Taxation Authorities on 19 August.

In the opinion of the Company's management and 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 in 2013, which was signed in agreement. Accordingly, management considered that no liability should be recognised.

To date, the Company has not made any payments related to assessments signed under protest, nor in respect of the fine.

17. Events after the reporting period

On 3 July 2017, a standstill agreement was signed with banks, under which the past-due amount of the debt not paid, of €20.7 million (Note 7.b) will be not be callable until 31 July 2017, with tacit renewal of maturity until a final deadline of 30 September 2017.

In addition, for the remaining €2.5 million past-due and not paid (Note 7.b), on 3 August 2017 a waiver was granted by the banks approving the extension of the original contractual maturity until 7 October 2017.

Therefore, at the date of presentation of the accompanying interim condensed consolidated financial statements, and in accordance with these agreements signed with banks, the Group does not have any past-due and unpaid debts with these entities.

Of the total €336,576 thousand of bank borrowings and finance lease liabilities, negotiations with the banks are underway for a total of €295,121 thousand, which are also the subject of trade guarantees.

At present, the extension of the standstill agreement accepted by the Board of Directors of the Company is being processed internally by the pertinent areas of the participating banks with a view to formalising it as quickly as possible, with effect from 1 October 2017 to 15 January 2018.

On 20 July 2017, the Group, through its Mining & Handling business division, signed a contract for slightly over US$130 million with Greenfield SPV I, S.A.P.I. de CV for the turnkey delivery of a series of new facilities from the storage and supply of coal to the Petacalco Power Plant, in Mexico, owned by the Federal Electricity Commission (CFE for its initials in Spanish). DF's scope covers the design, procurement, construction and commissioning of two new coal storage yards, one at Puerto de Lázaro Cárdenas and the other at the actual power plant, and the overland conveyor belt connecting the two yards, with a length of over 6 kilometres. The project will be complemented with auxiliary equipment for the operation of the new facilities.

18. Additional note for English translation

These interim condensed consolidated financial statements for the six months ended 30 June 2017 are presented in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the financial statements for the year ended 31 December 2016 prepared in accordance with EU-IFRS. Consequently, certain accounting practices applied by the Group may not conform with generally accepted principles in other countries.

INTERIM CONSOLIDATED MANAGEMENT REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2017

General performance

	€000		
	30 June 2017 (Unaudited)	30 June 2016 (Unaudited)	% Change
Revenue	319,161	334,064	-4.46%
EBITDA	7,787	15,892	-51.00%
Profit/(loss) before tax	(3,690)	1,390	-365.47%
Order intake	413,635	217,905	89.82%
Order backlog	2,264,615	2,175,573	4.09%

At 30 June 2017, the parent company's equity excluding valuation adjustments stood at €61,812 thousand, representing 77.27% of the Company's capital.

Sales through 30 June 2017 totalled €319 million, down 4.5% year-on-year. This reduction was due to both the delay in the start of some projects in the backlog and to lower order intake related to the Company's financial position.

The Company reported a loss before tax of €3.7 million, mostly as a result of restructuring costs in the Manufacturing line of €1.4 million and exchange losses of €3.6 million, caused mainly by the depreciation of the US dollar. Stripping out the negative one-off effects, the Company would have presented a profit before tax of €1.3 million.

EBITDA amounted to €7.8 million, down from the €15.9 million recorded in the first half of last year. The fall in gross operating income was the result of the drop in business in the Mining & Handling line, narrower margins in the Services line, foreign currency exchange differences and the restructuring costs in the Manufacturing line.

Order intake in the first half amounted to €414 million, an improvement of 90% from the same period last year. The bulk of order intake was in the Energy, Mining & Handling and Services business areas. Highlights of the period included the contract win in the Energy line entailing the Jebel Ali "K" project in Dubai for the construction of a 500 MW open cycle plant for €204 million, and the one in the Mining & Handling line entailing the Naftan project in Belarus, for the design, supply and commissioning of a vent gas recovery system, for €84 million. The improvement in order intake came despite the Company's financial difficulties.

Also worth noting, as explained in Note 17 to the interim condensed consolidated financial statements, is the contracted signed by the Group, through its Mining & Handling business division, for approximately USD130 million for the turnkey delivery of a series of new facilities from the storage and supply of coal to the Petacalco Power Plant, in Mexico, owned by the Federal Electricity Commission (CFE for its initials in Spanish).

With this, the Group's order intake would surpass €500 million.

At 30 June 2017, Duro Felguera's order backlog stood at €2,264 million. However, there are no start dates for the Rio Grande, Novo Tempo and Octopus projects, which amount to €865 million. Geographically, Latam, and Africa and the Middle East represent 52.6% and 24%, respectively, of the order backlog.

Turning to the balance sheet, the Group showed gross cash of €122 million and net debt of €229 million. Repayments of borrowings by the Group in the first half of the year amounted to €25.8 million.

The Company is still negotiating with Bankia, BBVA, Caixabank, Sabadell and Santander/Popular over debt maturities and trade guarantees. The negotiations began in 2016. In early July, the Company signed a standstill agreement with these banks, which runs until 30 September 2017. A result, the Company is disposing of non-core assets. From the start of negotiations until now, Petróleos Asturianos and Secicar have been sold, while progress has been made on the sale of other assets. Similarly, a plan has been put in place to reduce overhead costs, which is already bearing fruit. At present, the extension of the standstill agreement accepted by the Board of Directors of the Company is being processed internally by the pertinent areas of the participating banks with a view to formalising it as quickly as possible, with effect from 1 October 2017 to 15 January 2018.

Moreover, a plan is being designed to reinforce the capital structure. The amount and instrument have yet to be defined, or whether this will entail a single or several transactions. At the same time, the Company is still searching for a strategic partner, although its profile or the how this partner will acquire capital, have not been defined. Several parties have expressed an interest.

-Backlog is the amount pending execution of signed contracts held by the Company, calculated by subtracting the amount executed from the total amount of each contract:

-Order intake is the total amount of contracts won in the year, calculating by adding the amounts of each contract entered into during the year.

-EBITDA is earnings before interest, tax, depreciation and amortisation. Calculation of EBITDA is disclosed in Note 3 to the interim condensed consolidated financial statements.

-Net financial debt is the amount of gross debt less cash and cash equivalents. Calculation of net financial debt is disclosed in Note 4.1 to the interim condensed consolidated financial statements.

Business outlook

The Company's management expects the current portfolio of projects being executed and the large pipeline of bids to sustain sales in the coming years. It also expects margins to be contained.

Based on the contracts signed and the project pipeline, the Company is keeping its annual order intake target.

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

As a result of its international activities, the Group 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 Venezuelan bolivar (VEF) and the Argentinian peso (ARP).

Foreign currency risks and the policy for managing them can be summarised as follows:

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

- Most contracts are arranged in "multi-currency", separating the selling price in the various currencies from the expected costs and maintaining the expected margins in euros.
- Financing of working capital relating to each project is denominated in the currency of payment.
- For amounts not covered by the above arrangements, exchange insurance or forward contracts are arranged for the required terms; decision-making on hedges is centralised in the Group's Finance Department.

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 for the Termocentro power project, and in Argentina for the Vuelta de Obligado energy project.

Since the commencement of the projects to 30 June 2017, income from these projects increased by €315 million (31 December 2015: €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.

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 63% of "Trade and other receivables" at 30 June 2017 (31 December 2016: 53%), relating to operations with the type of institutions indicated above. Accordingly, the Group considers that credit risk is extremely limited.
The Group also performs an analysis before entering into a contract of the overall position of "Trade and other receivables" and monitors this on an ongoing basis, as well as an individual analysis of the most significant exposures (including the type of entities mentioned earlier).

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.

Liquidity risk (Note 4.1) has increased, basically due to enforcement of the guarantees of the Roy Hill Iron Ore project and the financing necessary to complete the Vuelta de Obligado and Carrington projects, which have led to higher drawdowns from available credit facilities and precluded the Company from servicing €23.2 million of its borrowings at maturity in 2017. However, as at 30 June 2017, this amount had not fallen due (Note 17). The Company is in negotiations with financial institutions and exploring, together with its advisors, alternative measures to improve liquidity in the short and medium term, such as bringing in a strategic partner, disposing of non-core assets, and carrying out an organisational streamlining, all to match its liquidity needs and the maturity of its debt to its business plan.

	30 June 2017	**31 December 2016**
Borrowings and derivatives	(351,208)	(377,142)
Less: Cash and cash equivalents	121,726	152,397
Net cash position	(229,482)	(224,745)

Financial instruments

In the six months ended 30 June 2017, the Group followed the same policy for the use of financial instruments as that described in Note 3 to the 2016 annual consolidated financial statements.

Treasury share transactions

At 30 June 2017, the parent company held 16,000,000 treasury shares for an amount of €87,719 thousand (31 December 2016: €87,719 thousand).

Significant events after the reporting period

On 3 July 2017, a standstill agreement was signed with banks, under which the past-due amount of the debt not paid, of €20.7 million (Note 7.b) will be not be callable until 31 July 2017, with tacit renewal of maturity until a final deadline of 30 September 2017.

In addition, for the remaining €2.5 million past-due and not paid (Note 7.b), on 3 August 2017 a waiver was granted by the banks approving the extension of the original contractual maturity until 7 October 2017.

Therefore, at the date of presentation of the accompanying interim condensed consolidated financial statements, and in accordance with these agreements signed with banks, the Group does not have any past-due and unpaid debts with these entities.

At present, the extension of the standstill agreement accepted by the Board of Directors of the Company is being processed internally by the pertinent areas of the participating banks with a view to formalising it as quickly as possible, with effect from 1 October 2017 to 15 January 2018.

Of the total €336,576 thousand of bank borrowings and finance lease liabilities, negotiations with the banks are underway for a total of €295,121 thousand, which are also the subject of trade guarantees.

On 20 July 2017, through its Mining & Handling business division, the Group signed a contract for slightly over US$130 million with Greenfield SPV I, S.A.P.I. de CV for the turnkey delivery of a series of new facilities from the storage and supply of coal to the Petacalco Power Plant, in Mexico, owned by the Federal Electricity Commission (CFE for its initials in Spanish). DF's scope covers the design, procurement, construction and commissioning of two new coal storage yards, one at Puerto de Lázaro Cárdenas and the other at the actual power plant, and the overland conveyor belt connecting the two yards, with a length of over 6 kilometres. The project will be complemented with auxiliary equipment for the operation of the new facilities.

DURO FELGUERA, S.A. AND SUBSIDIARIES

APPROVAL OF THE BOARD OF DIRECTORS

Chairman	Mr. Ángel Antonio del Valle Suárez
Deputy Chairman	Inversiones Río Magdalena, S.L.
Director	Inversiones Somió, S.L.
Director	Inversiones El Piles, S.L.
Director	Mr. Ricardo Cordoba
Director	Ms. Elena Cabal Noriega
Director	Mr. Francisco Javier González Canga
Director	Mr. Acacio F. Rodríguez García
Non-voting Secretary	Mr. Secundino Felgueroso Fuentes

Certificate prepared by Secundino Felgueroso Fuentes, Secretary to the Board of Directors, to state that, after the preparation and approval of interim condensed consolidated financial statements and interim consolidated management report for the first half of 2017 of DURO FELGUERA, S.A. and Subsidiaries by all of the members of the Board of Directors, have signed this document approved by the Chairman, which includes this page in the Spanish language version signed by each of the Board Members, whose full names and position are indicated after each signature, which I validate and certify. In the event of discrepancy, the Spanish language version prevails.

Gijón, 29 September 2017

Mr. Ángel Antonio del Valle Suárez Chairman	Mr. Secundino Felgueroso Fuentes Non-voting Secretary