Audit Report on Financial Statements
issued by an Independent Auditor

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

Building a better
working world

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AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 35)

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

Audit report on the financial statements

Opinion

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

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and the financial position of the Company as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specially, the accounting principles and criteria contained therein.

Basis for opinion

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

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

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

Material uncertainty related to going concern

We draw your attention to the matter described in Note 2.2 of the accompanying financial statements, which explains that meeting the Group's cash flow plan for the fifteen-month period following 2019 will require, among other things, funds from the sale of non-strategic assets for an amount ranging from 10 to 15 million euros, obtaining waivers from creditor banks in relation to the non-receipt of the loan referred to Note 9 that is currently in an early repayment scenario, new guarantees or similar instruments for portfolio projects and new contracts amounting to 40 million euros, as well as the materialization of the assumptions made by the directors with regard to ongoing projects and matters under dispute, all of which must be considered in the context of the health crisis described in Note 33 to the accompanying financial statements.

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

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

Emphasis-of-matter paragraphs

We draw your attention to Note 28 of the accompanying financial statements, which explains that the subsidiary Duro Felguera Australia Pty Ltd. repaid approximately 60.1 million euros relating to a loan granted to Duro Felguera, S.A. in previous years. As indicated in the aforementioned note, the directors have assessed the risk that reintegration actions could be brought against Duro Felguera, S.A. and, despite the existing uncertainties, based on the opinions of their legal advisors, have determined that the probability of Duro Felguera, S.A. having to repay the amounts repatriated, in full or in part, is less than 50%. Our opinion was not modified with respect to this matter.

We draw your attention to the matter described in Note 28 of the accompanying financial statements, which describes the Company's ongoing litigation in connection with the Jebel Ali project and has resulted in the client executing guarantees amounting to 47.8 million euros. As explained in the aforementioned note, despite the uncertainties inherent in the process, based on the information currently available, the Company does not expect the final outcome of this contingency to have a material impact on its equity or financial position and, accordingly, it has not made any additional provision for this contingency. Our opinion was not modified with respect to this matter.

Key audit matters

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

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

Recognition of income from construction contracts

Description	As explained in Note 3.16.a) to the accompanying financial statements, revenue from construction contracts are recognized using the stage of completion method, in conformity with the applicable regulatory framework for financial reporting. When applying the stage of completion method, the Company’s directors use significant estimates related to the total necessary costs to execute the contract, as well as the amount of claims in negotiation or changes in the scope of the project, which are included, where applicable, as additional contract revenue. The estimated amount associated with these costs is significant and is likewise based on complex, highly subjective judgments. Income, total contract costs, and recognition of revenue may significantly differ from initial estimates, due to new or additional information on overruns and changes in the scope over the term of the project. Given the uncertainty underlying the process of making the accounting estimates used in recognizing this revenue and the materiality of the related amounts, we determined this to be a key audit matter.

Our response

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

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

Estimation of impairment losses for the main past-due receivables

Description

As explained in Note 11 to the financial statements, at December 31, 2019, "Trade receivables" net of impairment losses, amounted to 16 million euros. As explained in the aforementioned note, of these amounts, the main past-due receivables pertain to Termocentro (Venezuela).

The estimation of impairment loss on these assets requires significant judgment by Management, the relevant principles and criteria of which are provided in Notes 3 and 11 to the accompanying financial statements. The identification of impaired credit exposures and the determination of recoverable amounts are processes subject to the uncertainty inherent in using hypotheses and estimates.

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

Our response

The audit procedures carried out on past-due receivables and, specially, on the Termocentro project (Venezuela) were the following:

- We carried out an itemized review of past-due receivables, analyzing the reasonableness of the hypotheses used by Company´s directors to identify and quantify impairment.
- Obtaining confirmation of the balance owed by the customer Corpoelec (previously called C.A. Electricidad de Caracas) and we reviewed the reasonableness of the principal hypotheses used by the Company directors, which were based primarily on trends in the quoted prices of Venezuelan sovereign bonds as a market reference, with a view to verifying the reasonableness of the impairment loss recognized in the accompanying financial statements.

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

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

Description	We draw your attention to the matter described in Note 28 to the accompanying financial statements, which states that on December 14, 2017, the Company disclosed the receipt of the ruling from Madrid Central Court of Instruction No. 2, allowing the lawsuit filed against DURO FELGUERA, S.A. and others by the Special Prosecution Office for Corruption and Organized Crime, concerning a possible alleged case of corruption of a foreign civil servant or authority, in addition to an alleged money laundering offense in connection with a payment totaling approximately 80.6 million US dollars. Both offenses relate to a contract signed by the Company for the construction and start-up of a combined cycle plant in Venezuela. As likewise explained in the aforementioned note, it is not possible to determine the likelihood or extent of the possible consequences, which will depend on the outcome of the criminal investigation. Generally, these proceedings are subject to uncertainty and can take a considerable period of time to resolve, requiring complex estimates on the part of management. Consequently, we determined this to be a key audit matter.
Our response	In relation to this matter, our audit procedures included the following: ▶ Briefing on the current status of litigations via meetings with Management. ▶ We obtained and analyzed, with the involvement of our legal specialists, the legal opinion prepared by the attorney engaged by the Company. ▶ We reviewed the disclosures included in the notes to the financial statements in conformity with the regulatory framework for financial reporting applicable to the Company.

Other information: management report

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

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

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

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

Based on the work performed, as described above, we have verified that the management report includes a reference to the fact the non-financial Information referred to the paragraph a) above, is provided in the consolidated management report of DURO FELGUERA Group, in which the Company is integrated; that the information contained in the Annual Corporate Governance Report referred to the mentioned paragraph, is included in the management report, and that the remaining information contained therein is consistent with that provided in the 2019 financial statements and their content and presentation are in conformity with applicable regulations.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Additional report to the audit committee

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

Term of engagement

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

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

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

(Signed in the original Spanish version)

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

May 22, 2020

Duro Felguera, S.A.

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

DURO FELGUERA, S.A.

CONTENTS OF THE 2019 FINANCIAL STATEMENTS

DURO FELGUERA, S.A.

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

		At 31 December	
ASSETS	**Note**	**2019**	**2018**
NON-CURRENT ASSETS			
Intangible assets	**6**	**8,700**	**10,798**
Property, plant and equipment	**7**	**15,384**	**16,238**
Investment properties	**8**	**13,469**	**13,652**
Non-current investments in group companies and associates		**26,335**	**38,581**
Equity instruments	**10**	26,335	31,197
Loans		-	7,384
Non-current investments	**9**	**5,498**	**5,013**
Equity instruments		5,470	4,445
Loans to companies	**11**	3	516
Other financial assets	**11**	25	52
Deferred tax assets	**21**	**28,059**	**37,924**
TOTAL NON-CURRENT ASSETS		**97,445**	**122,206**
CURRENT ASSETS			
Inventories	**13**	**4,228**	**5,054**
Trade and other receivables	**9-11**	**92,442**	**158,024**
Trade receivables		49,643	101,789
Trade receivables from group companies and associates	**31**	12,981	12,499
Other receivables		10,263	25,122
Personnel		109	158
Current tax assets		-	107
Other receivables from Public Administrations		19,446	18,349
Current investments in group companies and associates	**9-11-31**	**126,579**	**199,011**
Loans to companies		35,330	106,754
Other financial assets		91,249	92,257
Current investments	**9-11**	**15,124**	**15,745**
Loans to companies		488	-
Other financial assets		14,636	15,745
Prepayments for current assets		**1,183**	**1,371**
Cash and cash equivalents	**9-14**	**80,581**	**78,546**
TOTAL CURRENT ASSETS		**320,137**	**457,751**
TOTAL ASSETS		**417,582**	**579,957**

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

DURO FELGUERA, S.A.

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

		At December 31	
EQUITY AND LIABILITIES	**Note**	**2019**	**2018**
EQUITY			
Capital and reserves		**7,209**	**9,932**
Capital	**15**	4,800	48,000
Share premium	**15**	-	79,152
Reserves	**15**	(126)	(8,242)
Prior periods' profit and loss	**15**	(2,961)	(181,063)
Profit/(loss) for the year	**15**	(2,597)	63,992
Other equity instruments	**18**	8,093	8,093
Valuation adjustments		**980**	**697**
Available-for-sale financial assets		1,026	-
Translation differences		(46)	697
Grants, donations and bequests received	**17**	**1,691**	**1,781**
TOTAL EQUITY		**9,880**	**12,410**
NON-CURRENT LIABILITIES			
Non-current provisions		**11,373**	**76,829**
Long-term employee benefits	**19**	686	1,003
Other provisions	**20**	10,687	75,826
Non-current payables	**9-18**	**1,407**	**95,381**
Bonds and other marketable debt securities		-	8,069
Bank borrowings		-	85,000
Other financial liabilities		1,407	2,312
Deferred tax liabilities	**21**	**27,234**	**36,019**
TOTAL NON-CURRENT LIABILITIES		**40,014**	**208,229**
CURRENT LIABILITIES			
Current provisions	**20**	**35,852**	**47,852**
Current payables	**9-18**	**86,428**	**1,469**
Bank borrowings		85,307	297
Other financial liabilities		1,121	1,172
Current payables to group companies and associates	**9-18-31**	**38,472**	**41,882**
Trade and other payables	**9-18**	**206,926**	**268,105**
Suppliers		109,864	124,782
Suppliers, group companies and associates	**31**	24,971	29,049
Other payables		3,375	10,210
Personnel (salaries payable)		1,939	3,205
Current tax liabilities		2,141	1,556
Other payables to Public Administrations		1,628	3,833
Advances from customers		63,008	95,470
Prepayments for current assets		**10**	**10**
TOTAL CURRENT LIABILITIES		**367,688**	**359,318**
TOTAL EQUITY AND LIABILITIES		**417,582**	**579,957**

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

DURO FELGUERA, S.A.

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

	Note	Year ended 31 December 2019	2018
CONTINUING OPERATIONS			
Revenue	**23**	**254,043**	**207,698**
Sales		242,949	197,217
Services rendered		11,094	10,481
Own work capitalised		**-**	**7**
Cost of sales	**23**	**(149,027)**	**(139,515)**
Raw materials and other consumables used		(116,201)	(91,514)
Subcontracted work		(32,826)	(48,001)
Other operating income		**3,178**	**94**
Non-trading and other operating income		3,178	94
Personnel expenses	**23**	**(43,326)**	**(42,321)**
Salaries and wages		(34,668)	(34,146)
Employee benefits expense		(8,658)	(8,175)
Other operating expenses		**(70,289)**	**(99,092)**
External services		(74,107)	(67,839)
Taxes		(609)	(752)
Losses, impairment and changes in trade provisions		4,427	(30,501)
Amortisation and depreciation	**6-7-8**	**(3,306)**	**(3,504)**
Release of non-financial capital grants and other	**17**	**119**	**181**
Provision surpluses		**733**	**-**
Other income/(expense)		**(911)**	**(94)**
RESULTS FROM OPERATING ACTIVITIES		**(8,786)**	**(76,546)**
Finance income		**15,663**	**222,066**
Finance costs		**(1,946)**	**(3,990)**
Change in fair value of financial instruments		**8,069**	**(10)**
Exchange gains/(losses)		**3,938**	**6,796**
Impairment and gains/(losses) on disposal of financial instruments		**(16,490)**	**(80,767)**
NET FINANCE INCOME/(COST)	**24**	**9,234**	**144,095**
PROFIT/(LOSS) BEFORE TAX		**448**	**67,549**
Income tax expense	**22**	**(3,045)**	**(3,557)**
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**(2,597)**	**63,992**
PROFIT/(LOSS) FOR THE YEAR		**(2,597)**	**63,992**

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

DURO FELGUERA, S.A.

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

	Registered capital	Share premium	Reserves	(Own shares and equity holdings)	Prior years' profit and loss	Profit/(loss) for the year	Other equity instruments	Valuation adjustments	Grants, donations and bequests received	TOTAL
BALANCE AT 1 JANUARY 2018	**80,000**	**-**	**159,900**	**(87,719)**	**(104,091)**	**(227,522)**	**-**	**(3,646)**	**1,930**	**(181,148)**
Total recognised income and expense	-	-	-	-	-	63,992	-	4,343	(136)	68,199
Capital increases/(reductions)	(24,000)	79,152	70,560	-	-	-	-	-	-	125,712
Cancellation of treasury shares	(8,000)		(79,719)	87,719	-	-	-	-	-	-
Conversion of financial liabilities into convertible bonds	-	-	-	-	-	-	8,093	-	-	8,093
Transactions with equity holders or owners										
- Treasury share transactions	-	-	-	-	-	-	-	-	-	-
- Other transactions with equity holders or owners	-	-	(197)	-	-	-	-	-	-	(197)
Other changes in equity	-	-	(150,550)	-	(76,972)	227,522	-	-	-	-
Other movements (1)	-	-	(8,236)	-	-	-	-	-	(13)	(8,249)
BALANCE AT 31 DECEMBER 2018	**48,000**	**79,152**	**(8,242)**	**-**	**(181,063)**	**63,992**	**8,093**	**697**	**1,781**	**12,410**
BALANCE AT 1 JANUARY 2019	**48,000**	**79,152**	**(8,242)**	**-**	**(181,063)**	**63,992**	**8,093**	**697**	**1,781**	**12,410**
	-	-	-	-	-	(2,597)	-	283	(90)	(2,404)
Capital increases/(reductions)	(43,200)	(79,152)	8,242	-	114,110	-	-	-	-	-
Cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into convertible bonds	-	-	-	-	-	-	-	-	-	-
Transactions with equity holders or owners	-	-	-	-	-	-	-	-	-	-
- Treasury share transactions	-	-	-	-	-	-	-	-	-	-
- Other transactions with equity holders or owners	-	-	-	-	-	-	-	-	-	-
Other changes in equity	-	-	(126)	-	63,992	(63,992)	-	-	-	(126)
BALANCE AT 31 DECEMBER 2019	**4,800**	**-**	**(126)**	**-**	**(2,961)**	**(2,597)**	**8,093**	**980**	**1,691**	**9,880**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

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

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Profit/(loss) for the year	**15**	**(2,597)**	**63,992**
Income and expense recognised directly in equity			
Available-for-sale financial assets		1,026	1,760
Cash flow hedges		-	(1,052)
Translation differences		(743)	3,813
Tax effect	**21**	-	(178)
Total income and expense recognised directly in equity		**283**	**4,343**
Amounts transferred to the income statement			
Grants, donations and bequests received	**17**	(119)	(181)
Tax effect	**21**	29	45
Total amounts transferred to the income statement		**(90)**	**(136)**
TOTAL RECOGNISED INCOME AND EXPENSE		**(2,404)**	**68,199**

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

DURO FELGUERA, S.A.

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

	Note	Year ended At 31 December 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES	**25**		
Profit/(loss) for the year before tax		448	67,549
Adjustments for:		(11,206)	(117,890)
Changes in operating assets and liabilities		11,769	(56,322)
Other cash flows from operating activities		(1,774)	(3,526)
		(763)	**(110,189)**
CASH FLOWS FROM INVESTING ACTIVITIES	**26**		
Payments for investments		(184)	(542)
Proceeds from sale of investments		-	26,943
		(184)	**26,401**
CASH FLOWS FROM FINANCING ACTIVITIES	**27**		
Proceeds from and payments for equity instruments		-	125,712
Proceeds from and payments for financial liability instruments		(956)	(24,094)
Dividends and interest on other equity instruments paid		-	(197)
		(956)	**101,421**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**(1,903)**	**17,633**
Cash and cash equivalents at the beginning of the year	**14**	**78,546**	**58,896**
Profit/(loss) on exchange differences in cash and cash equivalents		3,938	2,017
Cash and cash equivalents at the end of the year	**14**	**80,581**	**78,546**

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

1. General information

Duro Felguera, S.A., parent of the Duro Felguera Group, was incorporated in La Felguera (Asturias) on 22 April 1900 for an indefinite period as a public limited company (*sociedad anónima*) under the name Sociedad Metalúrgica Duro Felguera, S.A. It changed its name on 25 June 1999 to Grupo Duro Felguera, S.A. and then again on 26 April 2001 to its current name. The Company's registered office and headquarters are located in Parque Científico Tecnológico, calle Ada Byron 90, Gijón.

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

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

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

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

<u>Key events in 2018</u>

On 27 July 2018, the Company successfully completed its financial debt restructuring, which had a positive impact on its financial result of €214,942 thousand. Also on 27 July 2018, a capital increase was placed on file with the Asturias Companies Register for a total amount of €125,712 thousand.

Revenue and cost estimates for major projects under construction were reviewed and trade receivables were tested for impairment, giving rise to deviations and impairments for a total of €148 million.

Lastly, on 1 March 2019, the Duro Felguera Australia subsidiary was notified of the ruling handed down by the Arbitration Court of Singapore regarding the arbitration between the Company and Samsung C&T Corporation over the Roy Hill project, which had a positive impact on equity and profit for 2018 of €38 million.

2. Basis of presentation

2.1 True and fair view

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

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

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

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

2.2 Accounting policies

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

Going concern principle

At 31 December 2019, the Company's equity amounted to €9,880 thousand (2018: €12,410 thousand).

The Group unveiled its strategic plan for 2019-2023 at the Annual General Meeting held on 31 May 2019. The main focus is on cash generation, articulated based on the following principles: self-financing of each project, priority of profitability over growth, efforts to enhance efficiency and control costs, reduce risks and focus the geographic perimeter.

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

The effects of this delay in securing new contracts have been offset by improved results in closing negotiations and in claims with clients and suppliers, and implementation of a new organisational model focused on controlling costs and streamlining the cost structure.

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

The Company estimates that compliance with the cash plan for the coming 15 months will require: (i) proceeds of between €10 million and €15 million from the sale of non-strategic assets; (ii) obtaining the necessary waivers from the creditor banks in relation to repayments of the loan over this period as it is subject to an acceleration event at the date of authorisation for issue of these financial statements (Note 18); (iii) the need for guarantees or equivalent instruments for projects in the backlog and new contract origination is estimated at €40 million. It is also estimated that the directors' assumptions in relation to projects in progress and those subject to dispute will be met.

Meanwhile, the Company has asked the financial institutions to waive the appointment of an external administrator (voluntary administrator) for Duro Felguera Australia, which took place on 28 February 2020, and while that waiver had yet to be approved at the date of authorisation for issue of these financial statements, it is expected to be granted shortly. Although this circumstance will entail the early maturity of the syndicated loan of €85 million under the refinancing agreement (Note 18), the Company does not anticipate that this loan will be enforced because it is confident of securing the waiver.

The Company has negative working capital of €47,551 thousand due to the reclassification of debt related to the syndicated loan of €85 thousand to current liabilities (Note 18). The General Accounting Plan requires prospective analysis at the reporting date of compliance with financial ratios. Since at 31 December 2019, no waiver had been issued by the financial institutions for compliance with the debt ratio at 30 June 2020, this loan was reclassified to current liabilities exclusively for the purpose of the separate financial statements. Nevertheless, the Company expects to receive this waiver before 30 June 2020. However, for the consolidated financial statements prepared in accordance with IFRS-EU, since those standards do not require prospective analyses, the syndicated loan was classified under non-current liabilities as at 31 December 2019.

<u>Further highlights</u>

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

The Company is in negotiations and has several outstanding claims with clients at varying stages to enhance its cash and equity positions. Negotiations are also in actively in progress with suppliers in a bid to reduce the amounts payable.

The Company is seeking to have the refinancing agreement reviewed with the creditor banks in order to improve its equity situation and arrange alternative bilateral security facilities and equivalent items.

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

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

2.3 Comparative information

In accordance with company law, for comparative purposes the Company included, in addition to the figures for 2019 for each item of the balance sheet, the income statement, the statement of changes in equity and the statement of cash flows, those of the previous year.

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

2.4 Aggregation of items

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

2.5 Consolidated financial statements

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

For reasons of clarity, the directors have elected to present the consolidated financial statements separately. The consolidated financial statements were authorised for issue on 22 May 2020 and will be placed on file with the Asturias Companies Register.

2.6 Accounting estimates and judgements

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

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

a) Warranty claims

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

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

b) Litigation

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

c) Income tax and deferred tax assets

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

If changes in the judgements used by management in determining the final results caused a change of +/-10% in the effective rate (Note 22), this would result in an increase/decrease of €305 thousand in the income tax liability (2018: €383 thousand).

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

The Company's management determines the estimated useful lives and related depreciation and amortisation expenses for its property, plant and equipment, and intangible assets. The useful lives of the assets are estimated in relation to the period in which the assets will generate economic benefits.
The Company reviews the useful lives of the assets at the end of each financial year. If the estimates differ from those made previously, the effect of the change is recognised prospectively, from the year in which the change was made.

e) Receivables and financial assets

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

f) Revenue recognition

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

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

The Company's service contracts in general include penalty provisions for delays or other reasons, and occasionally discounts, which vary from contract to contract. At 31 December 2019 the Company did not record any provision for penalties (2018: €2,449 thousand).

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

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

Regarding the Aconcagua project, the Company reached an agreement with the customer, delivering the plant and halving the amount of the guarantees. The Company also recognised €6 million based on the plant's returns under the contract and a favourable third-party expert and legal opinion.

3. Accounting policies

3.1. Intangible assets

Computer software

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

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

3.2. Property, plant and equipment

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

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

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

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

	Years of estimated useful life
Buildings	7 to 50
Technical installations and machinery	4 to 33
Other installations, equipment and furniture	3 to 20
Other property, plant and equipment	3 to 20

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

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

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

3.3. Investment properties

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

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

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

3.4. Impairment of non-financial assets

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

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

3.5. Financial assets

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

a) Loans and receivables

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

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

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

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

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

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

The Company takes the amount of guarantees enforced in its assessment of the recoverability of receivables as explained previous. Where the Company estimates an adverse outcome of a lawsuit, it recognises the related provision in accordance with applicable accounting standards. The guarantees enforced against the Company are indicated in Notes 28 and 33.

b) Held-to-maturity investments

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

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

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

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

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

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

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

e) Available-for-sale financial assets

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

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

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

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

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

3.6. Inventories

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

3.7. Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value and subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the type of hedge. The Company designates certain derivatives as:

Cash flow hedges:

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised temporarily in equity and taken to the income statement in the reporting period or periods in which the forecast hedge transaction affects profit or loss, except where the hedge relates to a forecast transaction that requires recognition of a non-financial asset or liability. In this case, the amounts recognised in equity are included in the cost of the asset or liability when it is acquired or assumed.

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

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

3.8. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

3.9. Equity

Share capital is represented by ordinary shares.

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

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

3.10. Financial liabilities

Debts and payables

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

Debts and payables are initially measured at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method. The effective interest rate is the rate that equates the carrying amount of the financial liability to the expected cash flows payable until maturity of the liability.
Nonetheless, trade payables falling due within one year for which there is no contractual interest rate are measured both initially and subsequently at their nominal amount, provided that the effect of not discounting the cash flows is immaterial.

3.11. Grants received

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

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

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

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

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

3.12. Current and deferred income tax

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

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

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

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

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

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

3.13. Provisions for liabilities and charges and other trade provisions

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

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

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

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

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

3.14. Employee benefits

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

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

b) Coal vouchers

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

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

c) Profit-sharing and bonus plans

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

d) Termination benefits

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

3.15. Joint ventures

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

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

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

a) Accounting of joint ventures

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

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

b) Integration of branches

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

3.16. <u>Revenue recognition</u>

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

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

a) Rendering of services

Contract costs are recognised as an expense in the period in which they are incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract.
The Company recognises revenue from turnkey engineering contracts based on the estimated outcome of the contract.

When it is probable that total contract costs will exceed total contract revenues, the expected loss is recognised as an expense immediately.

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

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

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

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

The Company presents the gross amount due from customers for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billing not paid yet by customers and retentions are included in “Trade and other receivables - Completed work pending certification” (Note 11).

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

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

b) Interest income

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

c) Dividend income

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

3.17. Leases

a) When the Company is lessee – Finance lease

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

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

b) When the Company is lessee – Operating lease

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

c) When the Company is lessor

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

3.18. Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

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

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

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

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

3.19. Related party transactions

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

4. Financial risk management

4.1 Financial risk factors

a) Market risk

(i) Foreign currency risk

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

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

- Most contracts are arranged in "multi-currency", separating the selling price in the various currencies from the expected costs and maintaining the expected margins in euros.
- Financing of working capital relating to each project is denominated in the currency of payment.

Foreign exchange risk arises when future commercial transactions or firm commitments, recognised assets and liabilities and net investments in foreign operations are denominated in a currency that is not the entity’s functional currency. The Company's risk management policy is to hedge most of the forecast transactions over the life of each project. However, the operating units are responsible for taking decisions on arranging hedges, using external forward foreign currency contracts, with the involvement of the Company's Treasury Department. Nevertheless, there were no outstanding hedges at 31 December 2019.

At 31 December 2019, if the euro had weakened by 5% against the USD, with all other variables held constant, post-tax profit for the year would have been €6,585 thousand higher (2018: €4,657 thousand higher), whereas if it had strengthened by 5%, post-profit for the year would have been €5,958 thousand lower (2018: €4,213 thousand lower), mainly as a result of foreign exchange gains/losses on translation to USD of trade and other receivables, cash, suppliers and customer prepayments, as well as the impact on the final outcome of projects of the amounts of future revenues and expenses in dollars, and the effect of the stage of completion at year end.

(ii) Price risk

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

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.

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

(iii) Cash flow and fair value interest rate risk

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

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

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

Based on the simulations performed, the impact on profit or loss of a 10 basis point shift would be an increase/decrease of €85 thousand (2018: €85 thousand).

b) Credit risk

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

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

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

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

Our main customers represent 93% of "Trade and other receivables" at 31 December 2019 (2018: 84%), relating to operations with the type of institutions indicated above.

(€ thousand)

Accordingly, the Company considers that credit risk is extremely limited. In addition to the analysis performed before entering into a contract, the overall position of "Trade and other receivables" is monitored on an ongoing basis, while the most significant exposures (including the type of entities mentioned earlier) are monitored individually.

The balance of trade receivables past due but not impaired at 31 December 2019 was €11,848 thousand (2018: €29,591 thousand) (Note 11).

c) Liquidity risk

Prudent liquidity risk entails maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities, and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, an objective of the Company's Treasury Department is to maintain flexibility in funding. Management also monitors the forecasts for the Company's liquidity reserves based on estimated cash flows.

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

	2019	**2018**
Borrowings and derivatives (Notes 5, 12 and 18)	(87,835)	(96,850)
Less: Cash and cash equivalents (Note 14)	80,581	78,546
Net financial debt	(7,254)	(18,304)
Undrawn credit lines (Note 18)	-	-
Total liquidity surplus/(shortfall)	**(7,254)**	**(18,304)**

Of the balance of "Cash and cash equivalents" at 31 December 2019 (Note 14), a total of €23,603 thousand was restricted as it had been pledged as security for project guarantees or cash deposits made in lieu of project guarantees (2018: €15,609 thousand).

4.2 Capital risk management

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

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

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

The gearing ratios at 31 December 2019 and 2018 were as follows:

	€ thousand	
	2019	**2018**
Borrowings and derivatives (Notes 5, 12 and 18)	(87,835)	(96,850)
Less: Cash and cash equivalents (Note 14)	80,581	78,546
Net financial debt	(7,254)	(18,304)
Equity	9,880	12,410
Capital and net financial debt	**17,134**	**30,714**
Gearing ratio	**42.34%**	**59.59%**

As explained in Note 18, the syndicated loan is subject, from the year ended 31 December 2019, to compliance with the debt ratio to Group consolidated figures (gross financial debt/ EBITDA). The borrowers in the syndicated loan have been given a waiver from the financial institutions on compliance with the debt ratio at 31 December 2019.

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

4.3 Fair value estimation

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

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

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

4.4 Derivative financial instruments and hedging activities

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

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

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

a) Fair value hedge

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

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

b) Cash flow hedges

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

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example inventories) or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. However, if a transaction is no longer considered probable, the gains or losses accumulated in equity are transferred immediately to the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

c) Derivatives not qualifying for hedge accounting

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

5. Assets and liabilities classified as held for sale

There were no assets classified as held for sale at 31 December 2019 and 2018.

6. Intangible assets

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

	€ thousand		
	Computer software	Other assets in progress	Total
Balance at 1 January 2018	**12,917**	**229**	**13,146**
Cost	19,948	229	20,177
Accumulated amortisation	(7,031)	-	(7,031)
Carrying amount	**12,917**	**229**	**13,146**
Additions	1	6	7
Other movements	-	-	-
Disposals	(2,277)	-	(2,277)
Amortisation	(78)	-	(78)
Balance at 31 December 2018	**10,563**	**235**	**10,798**
Cost	19,949	235	20,184
Accumulated amortisation	(9,386)	-	(9,386)
Carrying amount	**10,563**	**235**	**10,798**
Balance at 1 January 2019	**10,563**	**235**	**10,798**
Cost	19,949	235	20,184
Accumulated amortisation	(9,386)	-	(9,386)
Carrying amount	**10,563**	**235**	**10,798**
Additions	91	-	91
Other movements	(52)	-	(52)
Amortisation	(2,144)	-	(2,144)
Other amortisation movements	7	-	7
Balance at 31 December 2019	**8,465**	**235**	**8,700**
Cost	19,988	235	20,223
Accumulated amortisation	(11,523)	-	(11,523)
Carrying amount	**8,465**	**235**	**8,700**

a) Fully amortised intangible assets

At 31 December 2019, there were fully amortised intangible assets still in use with an accounting cost of €4,282 thousand (2018: €3,272 thousand).

b) Intangible assets in progress

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

7. Property, plant and equipment

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

	€ thousand					
	Land and buildings	**Technical installations and machinery**	**Other installations, equipment and furniture**	**Other property, plant, and equipment**	**Construction in progress and advances**	**Total**
Balance at 1 January 2018	**13,837**	**22**	**2,369**	**509**	**-**	**16,737**
Cost	16,189	119	6,307	5,519		28,134
Accumulated depreciation	(2,352)	(97)	(3,938)	(5,010)	-	(11,397)
Carrying amount	**13,837**	**22**	**2,369**	**509**	**-**	**16,737**
Additions	-	266	51	225	-	542
Disposals	-	-	-	(1)	-	(1)
Transfers	-	-	2	8	-	10
Depreciation	(297)	(29)	(341)	(332)	-	(999)
Disposals	-	-	-	1	-	1
Other depreciation movements	-	-	(23)	(29)	-	(52)
Balance at 31 December 2018	**13,540**	**259**	**2,058**	**381**	**-**	**16,238**
Cost	16,189	385	6,360	5,751	-	28,685
Accumulated depreciation	(2,649)	(126)	(4,302)	(5,370)	-	(12,447)
Carrying amount	**13,540**	**259**	**2,058**	**381**	**-**	**16,238**
Balance at 1 January 2019	**13,540**	**259**	**2,058**	**381**	**-**	**16,238**
Cost	16,189	385	6,360	5,751	-	28,685
Accumulated depreciation	(2,649)	(126)	(4,302)	(5,370)	-	(12,447)
Carrying amount	**13,540**	**259**	**2,058**	**381**	**-**	**16,238**
Additions	-	-	-	144	-	144
Disposals	-	-	-	-	-	-
Transfers	(279)	-	3	8	3	(265)
Depreciation charge	(291)	(67)	(339)	(199)	-	(896)
Disposals	-	-	-	-	-	-
Other depreciation movements	196	-	(14)	(19)	-	163
Balance at 31 December 2019	**13,166**	**192**	**1,708**	**315**	**3**	**15,384**
Cost	15,910	385	6,363	5,903	3	28,564
Accumulated depreciation	(2,744)	(193)	(4,655)	(5,588)	-	(13,180)
Carrying amount	**13,166**	**192**	**1,708**	**315**	**3**	**15,384**

a) Additions and transfers

Additions in 2019 included mainly the acquisition of information technology equipment.

b) Impairment losses

There were no significant impairment losses or reversals thereof for any assets in 2019 or 2018.

c) Subsidised assets

The net carrying amount of subsidised assets at 31 December 2019 was €13,114 thousand (2018: €13,405 thousand).

d) Fully depreciated assets

At 31 December 2019, there were fully depreciated buildings with an original cost of €181 thousand (2018: €294 thousand) still in use. The cost of the rest of the fully depreciated items of property, plant and equipment still in use amounted to €6,235 thousand (2018: €5,586 thousand).

e) Assets held under operating lease

The income statement included under "Operating expenses" operating lease expenses amounting to €4,867 thousand (2018: €3,860 thousand).

f) Insurance

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

g) Assets subject to guarantees

At 31 December 2019, there were items of property, plant and equipment with a carrying amount of €13,458 thousand securing the debt suspension agreements on the tax assessments for VAT, personal income tax and income tax-related party transactions (Note 22), although at the date of authorisation for issue of these financial statements and as discussed in Note 33, once all avenues of appeal have been exhausted against the ruling in which the National Court (Audiencia Nacional) found in favour of the Company by ruling that the enforcement order and attachments were inadmissible, the amounts of property, plant and equipment pledged would be €32 thousand.

8. Investment properties

	€ thousand	
	2019	**2018**
Land	8,619	8,618
Buildings	4,850	5,034
	13,469	**13,652**

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

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

	€ thousand		
	Land	**Buildings**	**Total**
Balance at 1 January 2018	**8,618**	**5,262**	**13,880**
Cost	9,094	9,429	18,523
Accumulated depreciation	-	(4,167)	(4,167)
Depreciation	(476)	-	(476)
Carrying amount	**8,618**	**5,262**	**13,880**
Transfers	-	-	-
Disposals	-	-	-
Depreciation	-	(228)	(228)
Other depreciation movements	-	-	-
Balance at 31 December 2018	**8,618**	**5,034**	**13,652**
Cost	9,094	9,429	18,523
Accumulated depreciation		(4,395)	(4,395)
Depreciation	(476)	-	(476)
Carrying amount	**8,618**	**5,034**	**13,652**
Balance at 1 January 2019	**8,618**	**5,034**	**13,652**
Cost	9,094	9,429	18,523
Accumulated depreciation	-	(4,395)	(4,395)
Depreciation	(476)	-	(476)
Carrying amount	**8,618**	**5,034**	**13,652**
Transfers	-	280	280
Disposals	-	-	-
Depreciation	-	(266)	(266)
Other depreciation movements	-	(197)	(197)
Balance at 31 December 2019	**8,618**	**4,851**	**13,469**
Cost	9,094	9,709	18,803
Accumulated depreciation	-	(4,858)	(4,858)
Depreciation	(476)	-	(476)
Carrying amount	**8,618**	**4,851**	**13,469**

The main investment properties relate to land located mostly in Langreo, Oviedo, Gijón (Asturias) and Madrid, of which €0.4 million (2018: €0.4 million) correspond to plots zoned as rural estates located in various areas of the Langreo municipality. The rest of the investments relate to buildings in La Felguera amounting to €2 million (2018: €2 million), Oviedo amounting to €8 million (2018: €8 million), and Gijón amounting to €3.1 million (2018: €3.2 million).

At year-end 2019, the fair value of the investments were appraised by an independent, expert valuer at €25,410 thousand (2018: €23,907 thousand).

a) Assets held under operating lease:

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

	€ thousand	
	2019	**2018**
Cost-capitalised operating leases	5,215	5,215
Accumulated depreciation	(1,021)	(933)
Depreciation for the year	(87)	(88)
Carrying amount	**4,107**	**4,194**

The contract provides for a grace period of three years.

b) Insurance

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

c) Assets subject to guarantees

At 31 December 2019, there were items of investment property amounting to €5,372 thousand securing the debt suspension agreements on the tax assessments for VAT, personal income tax and income tax-related party transactions (Note 22), although at the date of authorisation for issue of these financial statements and as discussed in Note 33, once all avenues of appeal have been exhausted against the ruling in which the National Court (Audiencia Nacional) found in favour of the Company by ruling that the enforcement order and attachments were inadmissible, the amounts of investment property pledged would be €5,353 thousand.

9. Analysis of financial instruments

9.1 Analysis by category

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

	€ thousand					
	Non-current financial assets					
	Equity instruments		Credits and other		TOTAL	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Loans and receivables (Note 11)	-	-	28	568	28	568
Available-for-sale financial assets at fair value	5,470	4,445	-	-	5,470	4,445
	5,470	**4,445**	**28**	**568**	**5,498**	**5,013**

	€ thousand					
	Current financial assets					
	Equity instruments		Loans, derivatives and other financial assets		TOTAL	
	2019	2018	2019	2018	2019	2018
Loans and receivables (Note 11)	-	-	214,699	354,324	214,699	354,324
Cash and cash equivalents (Note 14)	-	-	80,581	78,546	80,581	78,546
	-	**-**	**295,280**	**432,870**	**295,280**	**432,870**

Loans and receivables do not include balances with Public Administrations.

Available-for-sale financial assets include mainly the stake in Ausenco, Ltd for €5,406 thousand (2018: €4,380 thousand) over which the Company does not have control. In 2019, changes in the fair value of these financial assets amounting to €1,026 thousand were recognised (2018: negative €825 thousand).

	€ thousand							
	Non-current financial liabilities							
	Bonds and other marketable debt securities		Bank borrowings		Derivatives and other		TOTAL	
	2019	2018	2019	2018	2019	2018	2019	*2018*
Debts and payables (Note 18)	-	8,069	-	85,000	1,407	2,312	1,407	95,381
	-	**8,069**	**-**	**85,000**	**1,407**	**2,312**	**1,407**	**95,381**

	€ thousand					
	Current financial liabilities					
	Bank borrowings		Derivatives and other		TOTAL	
	2019	2018	2019	2018	2019	2018
Debts and payables (Notes 5 and 18)	85,307	297	242,750	305,770	328,057	306,067
	85,307	**297**	**242,750**	**305,770**	**328,057**	**306,067**

Debts and payables do not include balances with Public Administrations.

9.2 Analysis by maturity

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

2019	**€ thousand Financial assets**					
	2020	**2021**	**2022**	**2023**	**Subsequent years**	**Total**
Loans and receivables (Note 11)	214,699	28	-	-	-	214,727
Cash and cash equivalents (Note 14)	80,581	-	-	-	-	80,581
	295,280	**28**	**-**	**-**	**-**	**295,308**

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

2019	**€ thousand Financial liabilities**					
	2020	**2021**	**2022**	**2023**	**Subsequent years**	**Total**
Bank borrowings (Note 18)	85,307	-	-	-	-	85,307
Other financial liabilities (Note 18)	242,750	845	562	-	-	244,157
	328,057	**845**	**562**	**-**	**-**	**329,464**

As the General Accounting Plan requires prospective analysis at the reporting date of compliance with financial ratios and since at 31 December 2019, no waiver had been issued by the financial institutions for compliance with the debt ratio at 30 June 2020, the syndicated loan arising from the refinancing agreement for €85,000 was reclassified to current liabilities exclusively for the purpose of the separate financial statements. Nevertheless, the Company expects to receive this waiver before 30 June 2020. However, for the consolidated financial statements prepared in accordance with IFRS-EU, since those standards do not require prospective analyses, the syndicated loan was classified under non-current liabilities as at 31 December 2019.

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

9.3 Credit quality of financial assets

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

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

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

	€ thousand				
	Opening balance	**Additions and allowances**	**Transfers**	**Disposals**	**Closing balance**
2019					
Investments in group companies					
Investments in group companies	152,018	76,864	-	(223)	228,659
Impairment of investments in group companies	(120,838)	(81,627)	-	124	(202,341)
	31,180				26,318
Investments in associates					
Investments in associates	55	-	-	-	55
Uncalled capital on investments in associates	(4)	-	-	-	(4)
Impairment of investments in associates	(34)	-	-	-	(34)
	17				17
	31,197				**26,335**

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

Additions of investments in group companies in 2019 related to capital contributions to Felguera Gras India, Pvt for €211 thousand, and equity holder contributions to offset losses at DF Mompresa, S.A., for €33,910 thousand, and Duro Felguera Operaciones y Montajes, S.A.U. for €8,681 thousand. Regarding subsidiary Felguera IHI, S.A., with the waiver of pre-emptive shareholder rights, Duro Felguera, S.A. subscribed the full amount of a capital increase through a non-monetary contribution entailing the assignment of receivables from Coporación Eléctrica Nacional, S.A. (CORPOLEC) of Venezuela for €9,828 thousand and a contribution to offset losses through the offset of claims for €24,236 thousand. In 2018, additions related to capital contributions to Felguera Gras India, Pvt and equity holder contributions to offset losses at DF Mompresa, S.A., Felguera IHI, S.A., and Duro Felguera Oíl&Gas, S.A.

Disposals in 2019 related to the liquidation of DF Ingeniería Técnica de Proyectos y Sistemas, S.A.U. and Duro Felguera Industrial Projects Consulting Co.Ltd. Disposals in 2018 related to the sales of MDF Tecnogás, S.L. and Eólica del Principado, S.A.

The most significant impairment of investments in 2019 related to DF Mompresa, S.A.U., for €33,910 thousand, Felguera IHI, S.A., for €26,956 thousand, Duro Felguera Operaciones y Montajes, S.A.U., for €8,681 thousand, Felguera Grúas India Private Limited, for €7,001 thousand, Duro Felguera Investment, S.A., for €3,836 thousand, and Duro Felguera Oíl&Gas, S.A., for €1,243 thousand.

(€ thousand)

The following table presents information on group companies and associates:

2019

		% shareholding	
Name and legal structure	**Activity and location**	**Direct, %**	**Indirect, %**
Group:			
Duro Felguera Investment, S.A.U	Investment services (La Felguera)	100%	-
Duro Felguera Calderería Pesada, S.A.U.	Pressure vessels and heavy boiler-making (Gijón)	-	100%
DF Técnicas de Entibación, S.A.U.	Shoring material manufacture (Llanera)	-	100%
DF Operaciones y Montajes, S.A.U.	Study, marketing and provision of all kinds of services and supplies, maintenance, and operation of industrial plants, machinery and equipment for industrial plants. Commissioning of facilities (Gijón)	100%	-
DF Mompresa, S.A.U.	Assembly and maintenance of turbines (Gijón)	100%	-
Duro Felguera Oíl&Gas, S.A.	Creation, design, calculation, basic engineering, detailed engineering, management, planning, computerisation, coordination, monitoring and control of projects in the oil, gas and petrochemical industry (Madrid).	100%	-
Epicom, S.A.	Research, development, manufacture, marketing, technical assistance, study and consulting in relation to equipment, electronic systems and software (Madrid)	100%	-
Felguera I.H.I., S.A.	Fuel and gas storage equipment (Madrid)	100%	-
Felguera Tecnología de la Información, S.A.	Development of business management software (Llanera).	60%	-
Turbogeneradores del Perú, S.A.C.	Construction and assembly of industrial projects (Peru)	90%	10%

(€ thousand)

2019

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

(€ thousand)

2019

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

2019

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

(€ thousand)

2018

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

(€ thousand)

2018

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

(€ thousand)

2018

		% shareholding	
Name and legal structure Group:	**Activity and location**	**Direct, %**	**Indirect, %**
Duro Felguera Gulf Contracting LLC	Construction of electricity generation plants (Dubai).	100%	-
DF Canada Ltd	Engineering and construction services	100%	-
Felguera IHI Panamá, S.A.	Design, development, manufacture, integration, marketing, representation, installation and maintenance of air-conditioning and mechanical electrical and electronic systems, equipment and sub-assemblies, and the implementation of engineering projects, including necessary civil engineering work (Panama).	-	60%
Felguera IHI Canada Inc	Engineering and construction services	-	60%
Dunor Energía, S.A.P.I de C.V,	Construction of 313 CC Empalme II combined cycle plant in the state of Sonora (Mexico) under a tender from the Federal Electricity Commission (CFE).	50%	-
DF USA, LLC	Commercial project development (USA)	100%	-
Operación y Mantenimiento Solar Power S.L.	Provision of operation and maintenance services for solar thermal power plants (Madrid).	-	60%
DF do Brasil Desenvolvimiento de Projectos Ltda.	Commercial project development	100%	-
Tanques de Cartagena, S.A.	Hydrocarbon loading, unloading, storage, transfer, processing and handling	-	60%

2018

		% shareholding	
Name and legal structure	**Activity and location**	**Direct, %**	**Indirect, %**
Associates:			
Zoreda Internacional, S.A. (4)	Environment (Gijón)	32%	8%
Sociedad de Servicios Energéticos Iberoamericanos	Assembly and maintenance of electricity generation plants (Colombia)	25%	-
Duro Felguera Rail, S.A.	Manufacture and assembly of railway equipment (Mieres)	-	30%

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

2019

	€ thousand					
	Equity					
Company	**Capital**	**Reserves**	**Other items (1)**	**Operating profit/(loss)**	**Profit/(loss) for the year**	**Carrying amount of the investment**
Group:						
Direct holding (2)						
DF Mompresa, S.A.U. (3)	2,736	3,667	(3,667)	647	(6,310)	-
Felguera Tecnología de la Información, S.A (6)	90	1,177	142	(95)	(97)	176
Duro Felguera Investment, S.A.U.	23,468	5,336	(18,005)	(155)	(3,836)	6,963
Felguera I.H.I., S.A. (3)	2,900	-	(16,305)	17,762	20,528	7,106
Duro Felguera Operación y Montajes, S.A.U. (3)	120	8,758	(3,465)	(1,855)	(6,001)	-
Equipamientos Construcciones y Montajes, S.A. de C.V	166	5,947	(463)	3,249	2,187	-
Duro Felguera Oíl & Gas, S.A.U.	3,000	-	(998)	(1,214)	(1,243)	758
Turbogeneradores del Perú, S.A.C.	9	555	(120)	283	(41)	8
PT Duro Felguera Indonesia	477	-	(1,116)	(180)	(180)	-
Felguera Diavaz Proyectos México, S.A. (4)	3	-	(50)	-	3	-
Duro Felguera Do Brasil	91	6,087	(7,344)	(430)	(608)	-
Duro Felguera Australia Pty Ltd.	-	-	(8,521)	14,506	8,675	-
Epicom, S.A.	217	1,398	-	317	223	4,636
Duro Felguera Saudí LLC (6)	237	-	(137)	-	-	95
DF USA, LLC (6)	167	-	(661)	(17)	(17)	-
Dunor Energía, S.A.P.I. de C.V. (5)	1	-	(684)	2,684	(4,204)	-
DF Canadá Ltd. (6)	-	133	28	(196)	(204)	-
Felguera Grúas India Private Limited	50,523	-	(39,017)	(7,340)	(4,938)	6,567
Proyectos e Ingeniería Pycor, S.A. de CV (6)	481	77	(531)	52	5	9

DURO FELGUERA, S.A.

NOTE TO THE 2019 FINANCIAL STATEMENTS

(€ thousand)

2019

	€ thousand					
	Equity					
Company	**Capital**	**Reserves**	**Other items (1)**	**Operating profit/(loss)**	**Profit/(loss) for the year**	**Carrying amount of the investment**
Indirect holding						
DF Técnicas de Entibación, S.A.U.	3,936	861	(3,557)	3,916	3,916	-
Duro Felguera Calderería Pesada, S.A.U.	9,843	2,831	(5,277)	(6,605)	(6,596)	-
Duro Felguera Argentina, S.A.	13,874	2,465	(67,808)	715	(5,020)	-
Felguera IHI Canadá Inc	-	20	(10)	-	-	-
Opemasa Andina, Ltda (6)	1	1,791	(10,104)	(1,938)	(3,986)	-
Turbogeneradores de Venezuela C.A.	475	-	(2,479)	-	(1)	-
Mopre Montajes de Precisión Venezuela, C.A.	368	(314)	(225)	-	-	-
Operación y Mantenimiento Solar Power, S.L.	10	9	-	2	2	-

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

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

DURO FELGUERA, S.A.

NOTE TO THE 2019 FINANCIAL STATEMENTS

(€ thousand)

2018

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

2018

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

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

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

The Company has no contingencies in relation to associates.

11. Loans and receivables

	€ thousand	
	2019	**2018**
Non-current loans and receivables:		
- Loans to employees	3	516
- Other financial assets	25	52
	28	**568**
Current loans and receivables:		
- Trade receivables	68,736	128,665
- Completed work pending certification	34,112	43,342
- Provision for impairment	(53,205)	(70,218)
- Loans to group companies and associates (Note 31)	126,579	199,011
- Group companies (Note 31)	9,936	8,612
- Completed work pending certification, group (Note 31)	3,045	3,887
- Other receivables	10,263	25,122
- Loans to employees	109	158
- Current tax assets (1)	-	107
- Other receivables from Public Administrations (1)	19,446	18,349
- Loans to companies	488	-
- Other financial assets	14,636	15,745
	234,145	**372,780**
	234,173	**373,348**

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

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

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

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

The carrying amounts of loans and receivables are denominated in:

	€ thousand	
	2019	**2018**
Euro	89,694	237,172
US dollar	130,473	99,902
Algerian dinar	11,268	21,537
Mexican peso	232	381
Romanian leu	782	1,128
Indian rupee	60	61
Peruvian nuevo sol	462	431
United Arab Emirates dirham	1,202	81
Canadian dollar	-	11,215
Chilean peso	-	1,440
	234,173	**373,348**

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

	€ thousand	
	2019	**2018**
Opening balance	**(70,218)**	**(52,401)**
Provision for impairment of receivables	(6,647)	(17,824)
Reversals	360	7
Transfers	23,300	-
Closing balance	**(53,205)**	**(70,218)**

The transfer entails the provision related to the assignment of claims provided to Felguera IHI, S.A., as explained in Note 10.

The other classes within "Loans and receivables" do not contain impaired assets.

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

At 31 December 2019, in addition to receivables provisioned, receivables amounting to €11,848 thousand had fallen due (2018: €29,591 thousand). Balances less than six months past due are not impaired, as these accounts correspond to customers for whom there is no recent history of default. Balance more than six months past due, which relate to projects in progress, are also not considered to be impaired as some are covered by prepayments not settled and recognised under "Trade and other payables" (Note 18) for €2.1 million (2018: €3.1 million).

The most important past-due balances relate to:

- Bellara project (Algeria)
  This includes a past-due amount of €1,812 thousand. An agreement to jump start the project has been reached, which includes collection of past-due invoices.

- Termocentro project (Venezuela)
  This includes the past-due balance, net of provisions and including completed construction work pending certification, for 2019 of €14,983 thousand (2018: €28,437 thousand). No amounts related to this project were received between February 2017 and the date of authorisation for issue of these financial statements. In its assessment of the recoverability of the receivable and taking into account the expected credit loss, the Company considered:
  - The entire amount of outstanding balances, including the amount of completed work pending certification and the provision for the withholding to be applied to the customer.
  - Since the customer is a public institution, the payable was equated to Venezuela sovereign debt.
  - The average yield in 2019 of 12 Venezuelan government bonds, of 18.49%, was used for the calculation.
  - The confirmation from the customers on 28 January 2020 of the full amounts invoiced and pending payment.

  Based on these parameters, the Company kept an amount equivalent to the average price of the Venezuelan bonds 2019. The cumulative amount of the provision at 31 December 2019 stood at €41,157 thousand.

  Under the terms of the agreement signed with the customer, at 31 December 2019 there is interest amounting to €54,115 thousand accrued to the Group (2018: €45,091 thousand) not recognised and considered as contingent assets, although it was counted when calculating the impairment provision.

The ageing analysis of these receivables is as follows:

	€ thousand	
	2019	**2018**
Up to 3 months	5,568	7,052
Between 3 and 6 months	793	377
Between 6 months and 1 year	2,240	212
More than 1 year	3,247	21,950
	11,848	**29,591**

12. Derivative financial instruments and hedging activities

At 31 December 2019 and 2018, the Company held no derivative financial instruments.

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

a) Accounting hedges

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

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

	€ thousand	
	2019	**2018**
Balance at 1 January	**-**	**789**
Net variation due to customer invoicing	-	-
Net variation due to cash balances	-	-
Net variation due to supplier invoicing	-	-
Transfer to profit or loss as exchange differences	-	(789)
Balance at 31 December	**-**	**-**

13. Inventories

The entire balance of inventories at 31 December 2019 and 2018 relates to advance payments to suppliers for execution of projects in progress.

14. Cash and cash equivalents

	€ thousand	
	2019	**2018**
Cash	58,103	62,860
Other cash equivalents	22,478	15,686
	80,581	**78,546**

Total cash and cash equivalents is included in the statement of cash flows. At 31 December 2019, €23,603 thousand were restricted as they were pledged for the issue of guarantees for projects or cash deposits made in place of project guarantees (2018: €15,609 thousand).

"Other cash equivalents" includes mainly a deposit earning 0.1% in Romanian leis securing the issue of warranties for a project.

(€ thousand)

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

	2019	**2018**
Euro	52,093	55,832
US dollar	1,070	3,925
Mauritanian ouguiya	-	874
Algerian dinar	1,194	2,781
AED dirham	3,414	656
Romanian leu	22,452	14,416
Other	358	62
	80,581	**78,546**

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

a) Capital

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

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

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

The reverse split became effective on 10 July 2019.

(€ thousand)

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

Shareholder	**Direct ownership**
Global Portfolio Investments, S.L.	5.63%
UBS Switzerland AG	3.89%
TSK Electrónica y Electricidad, S.A.	3.12%

At 31 December 2018, the following legal persons held interests equal to or greater than 3% in the Company's share capital:

Shareholder	**Direct ownership**
Global Portfolio Investments, S.L.	9.52%
La Muza Inversiones SICAV, S.A.	4.90%
Juan José Rodríguez-Navarro Oliver	4.17%
UBS Switzerland AG	3.88%
TSK Electrónica y Electricidad, S.A.	3.12%
Álvaro Guzmán de Lázaro Mateos	3.08%

b) Share premium

The Corporate Enterprises Act (*Ley de Sociedades de Capital*) expressly permits the use of the share premium account balance to increase capital and establishes no specific restrictions as to its use.

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

c) Treasury shares

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

d) Convertible bonds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

e) Reserves

	€ thousand	
	2019	**2018**
Legal and statutory reserves		
- Legal reserve	-	-
	-	**-**
Other reserves:		
- Voluntary reserves	(126)	(8,242)
	(126)	**(8,242)**
	(126)	**(8,242)**

f) Legal reserve

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

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

g) Prior periods' profit and loss

	€ thousand	
	2019	**2018**
Retained earnings	-	4,200
Prior periods' losses	(2,961)	(185,263)
	(2,961)	**(181,063)**

h) Profit/(loss) for the year

h.1) Proposed application of losses

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

	€ thousand	
	2019	**2018**
Basis of distribution		
Profit/(loss)	(2,597)	63,992
	(2,597)	**63,992**

	€ thousand	
	2019	**2018**
Distribution		
Legal reserve	-	6,399
Prior periods' losses	(2,597)	57,593
	(2,597)	**63,992**

h.2) Interim dividend

The Company did not distribute any dividends in the years ended 31 December 2019 and 2018.

The financing agreement that became effective on 27 July 2018 allows the distribution of cash dividends (except for interim dividends), provided all the following conditions are met:

- the Company obtains a profit for the period;
- losses do not exist from previous years that reduce the Company's equity to below share capital;
- the distribution does not reduce the amount of equity to below share capital;
- the amount of cash after the distribution must be greater than zero;
- the gearing ratio is below 3.00x; and
- the Bound Parties are up to date in compliance with their obligations derived from the Financing Documents, and there has been no default event (nor will occur as a result of the distribution).

In addition, before dividends are distributed to shareholders, the Company must first repay and/or replace early the Syndicated Financing (Note 18) in an amount equal to the dividend to be distributed.

h.3) Limitations on the distribution of dividends

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

16. Share-based payments

No share delivery plan was agreed in 2019 or 2018.

17. Grants received

The amount recognised under capital grants relates to the restatement of loans granted for building construction, net of the related tax effect (Note 21). In 2019, €119 thousand were transferred to the income statement (2018: €181 thousand).

18. Debts and payables

	€ thousand	
	2019	**2018**
Non-current debts and payables:		
Bonds and other marketable debt securities	-	8,069
- Bank borrowings	-	85,000
- Other loans	1,407	2,312
	1,407	**95,381**
Current debts and payables:		
- Bank borrowings	85,307	297
- Suppliers	109,864	124,782
- Suppliers, group companies and associates (Note 31)	24,971	29,049
- Other payables	3,375	10,210
- Current payables to group companies and associates (Note 31)	38,472	41,882
- Other financial liabilities	1,121	1,172
- Salaries payable	1,939	3,205
- Current tax liability (1)	2,141	1,556
- Other payables to Public Administrations (1)	1,628	3,833
- Advances from customers	63,008	95,470
	331,826	**311,456**
	333,233	**406,837**

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

The exposure of the Company's debts and payables to changes in interest rate, mainly payables to group companies and bank borrowings, for €123,472 thousand (2018: €126,882 thousand), is reviewed annually and quarterly, respectively.

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

	€ thousand			
	Carrying amount		**Fair value**	
	2019	**2018**	**2019**	**2018**
Bonds and other marketable debt securities	-	8,069	-	8,069
- Bank loans	-	85,000	-	85,000
- Other loans	1,407	2,312	1,407	2,312
	1,407	**95,381**	**1,407**	**95,381**

The carrying amount of current borrowings approximates fair value as the effect of discounting is not material. Fair values are based on cash flows discounted at an interest rate based on the borrowing rate of 4% (2018: 4%).

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

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

	€ thousand	
	2019	**2018**
Euro	291,192	367,406
US dollars	6,420	15,345
Pound sterling	39	152
Algerian dinar	31,684	21,803
Peruvian nuevo sol	11	19
Mexican peso	58	79
Indian rupee	27	371
Romanian new leu	2,446	408
Australian dollar	-	1,018
United Arab Emirates dirham	1,315	-
Other	41	236
	333,233	**406,837**

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

a) Convertible bonds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company has reviewed the volatility criteria and assumptions used to calculate the valuation of the Class “B” Bonds and according to the opinion issued by an independent expert, these bonds were valued at €0 thousand (2018: €8,069 thousand). Accordingly, the Company recorded a positive financial result of €8,069 thousand. For the measurement, a binomial tree was developed and the spot price of the shares at the measurement date was considered, along with volatility of the spot price based on historial data and a risk-free interest rate curve based on the EONIA rate.

(€ thousand)

b) Bank loans

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

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

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

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

The €85,000 thousand syndicated loan is subject to compliance with the debt ratio (gross financial debt/ EBITDA) from the year ended 31 December 2019. The borrowers in the syndicated loan have been given a waiver from the financial institutions on compliance with the debt ratio at 31 December 2019.

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

As the General Accounting Plan requires prospective analysis at the reporting date of compliance with financial ratios and since at 31 December 2019, no waiver had been issued by the financial institutions for compliance with the debt ratio at 30 June 2020, the syndicated loan arising from the refinancing agreement for €85,000 was reclassified to current liabilities exclusively for the purpose of the separate financial statements. Nevertheless, the Company expects to receive this waiver before 30 June 2020. However, for the consolidated financial statements prepared in accordance with IFRS-EU, since those standards do not require prospective analyses, the syndicated loan was classified under non-current liabilities as at 31 December 2019.

c) Other loans

"Other non-current loans" mainly includes the updated debts with official bodies mainly loans received from the Ministry of Education and Science and other bodies, for a nominal amount of €8,790 thousand (2018: €8,790 thousand). The effect of discounting is recognised in "Capital grants".

The present value of these loans at 31 December 2019 was €1,407 thousand (2018: €2,312 thousand).

d) Other current financial liabilities

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

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

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

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

	Days	
	2019	**2018**
– Average supplier payment period	250.66	202.66
– Ratio of transactions paid	183.55	161.82
– Ratio of transactions outstanding	453.27	294.55

	€ thousand	
	2019	**2018**
– Total payments made	142,853	122,722
– Total payments outstanding	47,322	54,536

The calculation of the average period for payment to suppliers would be 153 days if we were to exclude the Djelfa project, for which the memorandum of understanding has yet to be signed in the form of an addendum to the contract (see Note 2.6 f)), and also a supplier under the Termocentro project, with whom a back-to-back mirror contract has been signed.

19. Long-term employee benefits

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

	€ thousand	
	2019	**2018**
Balance sheet obligations for:		
-Coal vouchers	104	104
-Length-of-service awards and other employee commitments	582	899
	686	**1,003**

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

	€ thousand	
	2019	**2018**
Present value of the obligations assumed	686	1,003
Liability in the balance sheet	**686**	**1,003**

a) Coal vouchers

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

	€ thousand	
	2019	**2018**
Opening balance	**104**	**109**
Benefits paid	-	(9)
Provisions	-	4
Reversals	-	-
Closing balance	**104**	**104**

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

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

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

b) Other obligations with employees

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

	€ thousand	
	2019	**2018**
Opening balance	**899**	**492**
Current service cost	-	619
Decreases	(317)	(212)
Closing balance	**582**	**899**

20. Provisions for liabilities and charges and other trade provisions

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

	€ thousand			
2019	**Provisions for liabilities**	**Provision for warranties**	**Other provisions**	**Total**
Opening balance	**75,826**	**13,553**	**34,299**	**123,678**
Arising during the year	4,623	1,085	13,129	18,837
Amounts reversed and used	(69,762)	(5,463)	(20,122)	(95,347)
Transfers	-	(24)	(605)	(629)
Closing balance	**10,687**	**9,151**	**26,701**	**46,539**

Analysis of total provisions:

	€ thousand	
	2019	**2018**
Non-current	10,687	75,826
Current	35,852	47,852
	46,539	**123,678**

"Provision for liabilities" includes mainly provisions recognised to cover negative equity of certain subsidiaries (Note 10). Amounts arising in the year relate to the provision for liabilites of DF Mompresa, S.A.U., Felguera IHI, S.A., DF Australia and Duro Felguera Operaciones y Montajes, S.A.U. (Note 10).

"Provision for warranties" includes mainly those amounts for which it has been considered reasonable to set aside a provision, basically as a result of various contractual clauses relating to warranties and liabilities which, if appropriate, would have to be assumed upon completion of the work, and taking into account the historical development of the amounts that have had to be assumed for this type of contingencies.

"Other provisions" includes provisions recognised by the Company for project losses, amounting to €22,411 thousand. At 31 December 2018, the Group has recognised provisions for losses amounting to €29,630 thousand and a provision for penalties of €2,449 thousand.

Amounts set aside for projects in progress arose from the new assessment of total estimated project costs due to: changes in the technical specifications and location of plants to be built, receipt of the final geo-technical definitions, modifications and advances in the development of detailed engineering based on feedback received from customers and/or suppliers of the main equipment, increase in equipment costs due to the need to close with suppliers accepted by customers, and higher expected costs due to extensions in the expected term of execution. Regarding these cost increases, the Company is in talks with/has made claims to customers to minimise the negative impact. However, in accordance with prevailing accounting regulations, to date they did not meet the requirement for recognition.

21. Deferred taxes

The breakdown of deferred taxes is as follows:

	€ thousand	
	2019	**2018**
Deferred tax assets:		
- Temporary differences	28,059	37,924
	28,059	**37,924**
Deferred tax liabilities:		
- Temporary differences	(27,234)	(36,019)
	(27,234)	**(36,019)**
Deferred taxes	**825**	**1,905**

	€ thousand	
	2019	**2018**
Deferred tax assets:		
- Non-current	28,059	31,099
- Current	-	6,825
	28,059	**37,924**
Deferred tax liabilities:		
- Non-current	(27,234)	(29,364)
- Current	-	(6,655)
	(27,234)	**(36,019)**
Deferred taxes	**825**	**1,905**

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

	€ thousand	
	2019	**2018**
Opening balance	**1,905**	**334**
Income statement charge (Note 22)	(1,276)	(1,927)
Tax charged directly to equity	196	3,498
Closing balance	**825**	**1,905**

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

	€ thousand				
Deferred tax assets	**Provisions for pensions and employee obligations**	**Provisions for warranties and liabilities**	**Taxable income (tax losses) and deductions**	**Adaptation to Royal Decree 1514/2007 and other**	**Total**
Balance at 31 December 2017	**-**	**4,104**	**-**	**624**	**4,728**
(Charged)/credited to the income statement	-	(786)	33,275	(2,458)	30,031
Charged directly to equity	-	-	-	3,165	3,165
Balance at 31 December 2018	**-**	**3,318**	**33,275**	**1,331**	**37,924**
(Charged)/credited to the income statement	-	(1,030)	(9,311)	309	(10,032)
Charged directly to equity	-	-	-	166	166
Balance at 31 December 2019		**2,288**	**23,964**	**1,806**	**28,058**

The Company reassesses annually the recovery of deferred tax assets taking into account the deferred tax assets and liabilities and the period of reversal, maintaining the deferred tax assets on the balance sheet up to the limit of the deferred liabilities with each taxable entity.

With effect from 1 January 2015, following the entry into force of Corporate Income Tax Law 27/2014, of 27 November, tax-loss carryforwards may be offset without any time limit.

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

	€ thousand			
Deferred tax liabilities	**Gains on transactions with non-current assets**	**Other**	**Subsidiaries, interest-free loans**	**Total**
Balance at 31 December 2017	**129**	**3,446**	**819**	**4,394**
Charged/(credited) to the income statement	-	31,958	-	31,958
Charged directly to equity	-	(301)	(32)	(333)
Balance at 31 December 2018	**129**	**35,103**	**787**	**36,019**
Charged/(credited) to the income statement	-	(8,755)	-	(8,755)
Charged directly to equity	-	-	(30)	(30)
Balance at 31 December 2019	**129**	**26,348**	**757**	**27,234**

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

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

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

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

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

22. Income tax and tax situation

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

2019	**€ thousand**		
Income and expense for the year	**Income statement**		
	Increases	**Decreases**	**Total**
Net profit			(2,597)
Income tax			3,045
Permanent differences	56,321	(37,806)	18,515
Temporary differences:			
- arising in the year	10,596	-	10,596
- arising in prior years	37,246	(14,589)	22,657
Taxable income (tax loss)			52,216
Offset of tax loss carryforwards			(42,683)
			9,533

Income tax expense comprises:

	€ thousand	
	2019	**2018**
Current tax	(587)	(77)
Foreign tax	(1,174)	(1,410)
Adjustment of prior year current tax	(8)	(31)
Adjusted of prior deferred tax (Note 21)	-	78
Tax credit (Note 21)	(9,312)	33,275
Deferred tax (Note 21)	8,036	(35,280)
Other	-	(112)
	(3,045)	**(3,557)**

Permanent differences are mainly generated as a result of the exclusion by the Company of income from branches and permanent establishments abroad and dividends received from Spanish and foreign investees, in accordance with the provisions of articles 21 and 22 of Corporate Income Tax Law 27/2014 of 27 November, and the provision for securities portfolio considered non-deductible expenses.

Duro Felguera, S.A. and the subsidiaries in which it directly or indirectly holds an interest of over 75% pay income tax under the consolidated tax scheme. This system requires the Tax Group reporting the taxable income be treated as single taxpayer for all purposes. However, each consolidating company must calculate its own tax liability as if it were filing separately and account for corporate income tax payable or refundable (tax credit) on the basis of whether it contributes a profit or a loss.

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

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

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

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

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

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

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

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

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

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

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

The Company did not recognise any liability related to these procedures since in the management's opinion, and based on reports issued by independent third parties in prior years and up to the reporting date, the arguments are sufficiently strong to expect a ruling in the Company's favour. These arguments can be summarised as follows:

- Doctrine of estoppel: the AEAT already inspected 2009, in which UTE TERMOCENTRO took a significant charge for its members that was considered exempt. No amount was adjusted in this connection.
- Substantive arguments accrediting UTE TERMOCENTRO's foreign operations.
- Delays in the proceedings: the proceedings were extended by a year and we have been attributed unjustified delays that are questionable. This could result in one, two or even three financial years becoming statute-barred, depending on the delay.

Meanwhile, the Spanish National Court, in a relatively recent decision of 28 December 2019 in relation to a dispute similar to the one facing Duro Felguera, held that a supply arrangement outside Spanish territory for a non-Spanish recipient should always be considered as operating abroad and therefore ruled in favour of the taxpayer on that particular point. Therefore, the Company is of the opinion that the National Court's ruling in this case supports our position in the case at hand.

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

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

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

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

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

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

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

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

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

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

- Document dated 30 October 2020 disputing the proposed tax settlement that Duro Felguera, S.A. had been asked to pay, amounting to €29,923 thousand in corporate income tax (€25,208 thousand relating to the actual tax and €4,715 thousand to late-payment interest). The Company filed a written statement of case protesting the tax assessment before the deadline and is currently awaiting the settlement agreement.

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

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

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

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

Since the thrust of the dispute, as with the previous inspection, lies in the Group's application of the exemption for foreign-earned income obtained by the temporary joint ventures operating abroad, and specifically by UTE TERMOCENTRO, the Company's opinion and that of its external tax advisors is that the arguments in its defence are sufficiently strong to expect a ruling in its favour. Therefore, no liability was recognised in this connection.

23. Revenue and expenses

a) Foreign currency transactions

The amounts of foreign currency transactions are as follows:

	€ thousand	
	2019	**2018**
Purchases	43,303	30,561
Sales	45,548	45,271

b) Revenue

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

	%	
Market	**2019**	**2018**
Domestic market	5.00	11.28
International market	95.00	88.72
	100.00	**100.00**

The breakdown of revenue by product line is as follows:

	%	
Line	**2019**	**2018**
Energy project management	63.81	53.89
Mining & Handling project management	26.30	34.36
Oil & Gas project management	6.78	8.23
Sundry services	3.11	3.52
	100.00	**100.00**

In 2019, the company recorded sales totalling €65 million, €59 million and €46 million, respectively, with three customers that, individually, represented over 10% of the Company's revenue (2018: three customers amounting to €77 million, €33 million and €22 million).

c) Operating grants released to income

No operating grants were recognised in 2019 and 2018.

d) Personnel expenses

	€ thousand	
	2019	**2018**
Salaries and wages	33,639	31,595
Termination benefits	1,029	2,551
Employee benefits expense:		
- Social Security payable by the Company	8,872	7,607
- Other benefits	(214)	568
	43,326	**42,321**

(€ thousand)

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

	Number of employees	
	2019	**2018**
Directors	1	1
Senior management	7	5
Managers	18	15
Middle managers	112	123
Qualified staff	454	429
Other	91	86
	683	**659**

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

	2019			2018		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Directors	1	-	1	1	-	1
Senior management	6	2	8	5	-	5
Managers	11	5	16	9	6	15
Middle managers	80	20	100	101	19	120
Qualified staff	257	91	349	319	97	416
Other	50	29	78	49	34	83
	405	**147**	**552**	**484**	**156**	**640**

At 31 December 2019, there were 11 employees, all men, with a disability of greater than 33% (2018: 11 employees, all men).

e) External services

External services include mainly independent professional services and engineering services.

24. Net finance income/(cost)

	€ thousand	
	2019	**2018**
Finance income:		
Dividends		
- Group companies and associates (Note 31)	7,796	45
Marketable securities and other financial instruments		
- Group companies and associates (Note 31)	6,722	6,615
- Other	1,145	215,406
	15,663	**222,066**
Finance costs:		
Group companies and associates (Note 31)	(25)	(85)
On payables to third parties	(1,921)	(3,905)
	(1,946)	**(3,990)**
Change in fair value of financial instruments:		
Trading portfolio and other	**8,069**	**(10)**
Exchange gains/(losses)	**3,938**	**6,796**
Impairment and gains/(losses) on disposal of financial instruments		
Impairment and losses	(16,490)	(73,155)
Gains/(losses) on disposal and other	-	(7,612)
	(16,490)	**(80,767)**
Net finance income/(cost)	**9,234**	**144,095**

Change in the fair value of financial instruments includes the financial income resulting from changes in the valuation of class "B" convertible bonds (Note 18).

a) Finance income and costs

	€ thousand	
	2019	**2018**
Finance income:		
- Dividends from investments in group companies and associates	7,796	45
- Interest from debt securities	1,145	464
- Financial restructuring (Note 18)	-	214,942
- Other finance income from group companies	6,722	6,615
	15,663	**222,066**
Finance costs:		
- Interest on current accounts and loans to group companies	(26)	(85)
- Lease interest	-	(156)
- Loan interest	(1,788)	(3,582)
- **Interest due to restatement**	(132)	(167)
	(1,946)	**(3,990)**

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

	€ thousand	
	2019	**2018**
Impairment losses:		
- Investments in group companies and associates	(16,490)	(73,155)
	(16,490)	**(73,155)**
Losses on impairment, disposals and other:		
Impairment and reversal of impairment of other financial assets	-	(7,612)
	-	**(7,612)**
	(16,490)	**(80,767)**

Impairment of investments relates mainly to Felguera Grúas India Private Limited, Duro Felguera Operaciones y Montajes, S.A.U., DF Mompresa, S.A.U., Duro Felguera Investment, S.A. and Dunor Energía, S.A.P.I. de C.V. (Notes 10 and 20).

c) Exchange gains/(losses)

Net exchange differences for the year related mainly to the positive impact of appreciation by the US dollar.

25. Cash flows from operating activities

	€ thousand	
	2019	**2018**
Profit/(loss) for the year before tax	**448**	**67,549**
Profit/(loss) adjustments:		
- Amortisation and depreciation	3,306	3,504
- Valuation allowances for impairment losses	12,022	-
- Changes in provisions	(733)	30,501
- Grants recognised in the income statement	(119)	(181)
- Exchange gains/(losses)	(3,938)	(6,796)
- Own work capitalised	-	(7)
- Impairment and reversal of impairment of investments	-	73,155
- Finance income	(15,663)	(222,066)
- Finance costs	1,946	3,990
- Change in fair value of financial instruments	(8,069)	10
- Other income and expenses	42	-
	(11,206)	**(117,890)**
Changes in operating assets and liabilities:		
- Inventories	-	(546)
- Trade and other receivables	62,992	35,581
- Other financial assets	-	(47,990)
- Other current assets	79,874	(11,139)
- Trade and other payables	(69,833)	5,155
- Other financial liabilities	-	(38,186)
- Other current liabilities	(5,041)	803
- Other non-current assets and liabilities	(56,223)	-
	11,769	**(56,322)**
Other cash flows from operating activities:		
-Interest paid	(1,910)	(3,990)
-Interest received	1,145	464
-Other amounts paid (received)	(1,009)	-
	(1,774)	**(3,526)**
Cash flows used in operating activities	**(763)**	**(110,189)**

26. Cash flows from investing activities

	€ thousand	
	2019	**2018**
Payments for investments:		
- Group companies and associates	-	-
- Property, plant and equipment and investment property	(145)	(542)
- Intangible assets	(39)	-
	(184)	**(542)**
Proceeds from sale of investments:		
- Property, plant and equipment and investment property	-	26,943
	-	**26,943**
Cash flows from/(used in) investing activities	**(184)**	**26,401**

27. Cash flows from financing activities

	€ thousand	
	2019	**2018**
Proceeds from (and payments for) equity instruments:		
- Issue:		
- Equity instruments	-	125,712
	-	125,712
Proceeds from (and payments) for financial liability instruments:		
- Issue:		
- Bank borrowings	-	1,101
- Redemption and repayment		
- Bank borrowings	-	(1,772)
- Other payables	(956)	(23,423)
	(956)	(24,094)
	(956)	**101,618**
Dividends and interest on other equity instruments paid:		
- Other payments to shareholders of the company	-	(197)
	-	(197)
Cash flows used in financing activities	**(956)**	**101,421**

28. Guarantees, commitments and other contingencies

a) Contingent liabilities

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

Lawsuit by the Special Prosecutor

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

The Company considers that the documentation and other actions included in the reports provide sufficient justification or contractual evidence of the payments made, as they are based on contractual obligations assumed by individuals duly authorised for their grant in ordinary contracts -the rendering of (advisory and technical assistance) services- and inherent in the activity comprising the Company's objects (given their nature as indivisible or at least complementary to obtaining and executing a major international contract). Further, the existence of this contractual supporting material means that the matter is documented, recorded in the accounts and included in the Company's official and sole accounting system and in its financial statements and annual accounts, which are ultimately scrutinised by the Company's auditors. While the Company holds a positive outlook and view of the potential impact, based on the internal investigation carried out and since it is still in the early stages, based on the information available to date it is not possible to determine the probability or extent of the potential consequences, which will depend on the outcome of the criminal proceedings.

In light of the expert report issued by a third party, the evidence contained in the documentation provided in the Prosecutor's investigation and the pre-trial proceedings of the Central Examining Court, as well as information gleaned from testimonies given to the Prosecutor and the court, and, in general, all actions taken as at the date of the proceedings, the Company's defence argues that there is no evidence whatsoever that Duro Felguera S.A., its board or board members, executives, employees or representatives have authorised, been aware of and/or given consent to payments or granted improper advantages or benefits to authorities or public servants in Venezuela to corrupt them or induce them to infringe upon their public competences, powers or functions in negotiating, arranging and executing Termocentro's combined cycle plant construction project with C.A. Electricidad de Caracas.

Therefore, no liability should be attributed to the Company for any potential money laundering crimes, since there is no predicate offence, nor any involvement. Finally, the Company considers that the measure and policies outlined in its non-financial reporting are still appropriate.

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

Duro Felguera Australia Pty Ltd.

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

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

In September 2019, a transactional agreement was entered into between SC&T Corporation and DFA whereby both parties agreed to discontinue the actions taken and undertake new ones related to the project in exchange for payment of compensation by SC&T Corporation to DFA. As part of the agreement, the parent company issued a guarantee in favour of SC&T Corporation for approximately €12 million to face potential liabilities with third parties regarding the project.

As a result, DFA recognised the accounting effects of the agreement with SC&T Corporation, with a positive impact on its equity.

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

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

At a Board meeting held on 19 December 2019, the Company's directors decided to discontinue the implicit financial support that the Company had historically been providing to DFA, given the fact that no further projects were secured in Australia following completion of the Roy Hill project and its subsidiary DFA had therefore become a dormant company. Furthermore, Australia is considered a non-strategic country and the Group has no interest in maintaining a presence there. This decision was ratified at the Board meeting held on 26 February 2020, after receiving the legal opinions that had been requested, and disclosed to the market on 29 February 2020. The voluntary administrator was appointed on 28 February 2020, whereupon the Company effectively relinquished control of the subsidiary in accordance with the laws of Australia.

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

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

Therefore, no provision was recognised in this connection in the accompanying financial statements.

<u>Jebel Ali Power Station Project</u>

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

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

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

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

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

b) Guarantees

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

	€ thousand	
	2019	**2018**
Dunor Energía S.A.P.I. de C.V.	7,654	173,362
Duro Felguera Australia Pty Ltd.	-	59,090
Duro Felguera Calderería Pesada, S.A.U.	66,465	54,846
Duro Felguera Argentina	-	84,011
DF Mompresa, S.A.U.	88	55,079
Opemasa Andina Ltda	37,057	41,319
Turbogeneradores de Perú	-	29,258
Núcleo	195	4,160
Felguera Grúas India Private Limited	-	20,304
Duro Felguera Oíl & Gas S.A.U	582	34,727
Felguera IHI, S.A.	1,823	94,063
Duro Felguera Rail, S.A.U.	834	1,466
DF Operaciones y Montajes, S.A.U.	330	1,553
Duro Felguera UK	23	4,662
Epicom	517	502
Consorcio El Sitio	-	187
UTE Termocentro	3,471	2,974
Other group companies	-	59
	119,039	**661,622**

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

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

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

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

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

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

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

	€ thousand	
	2019	**2018**
Guarantees of sales and execution contracts	285,308	313,576
For tender proposals	-	-
Other	919	1,326
	286,227	**314,902**

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

From 31 December 2019 to the date of authorisation for issue of these financial statements, a total of €766,567 thousand in collateral provided to third parties in the form of guarantees or deposits has either been cancelled or reduced, such collateral relating to the Termocentro, Cogeneración de Aconcagua, Puerto Ventanas and other projects (Note 33).

(€ thousand)

c) Commitments

At year-end 2019 and 2018, there were no significant commitments to investment in property, plant and equipment and intangible assets

29. Temporary joint ventures and branches

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

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

Company	% interest	Location	Activity
UTE DF – TR Barranco II	50%	Gijón	Turnkey supply of the Barranco II combined cycle plant
UTE CTCC Puentes	50%	Gijón	Turnkey supply of the Puentes combined cycle plant
UTE CTCC Barcelona	50%	Madrid	Construction of the Barcelona Port combined cycle
UTE CT Besós	50%	Madrid	Civil works for combined cycle plant
UTE Andasol III	40%	Madrid	Turnkey supply of solar thermal plant
UTE Termocentro	90%	Gijón	Design, supply, construction and commissioning of Termocentro CCTP.
UTE New Chilca	85%	Gijón	Execution of the construction work on the New Chilca combined cycle thermal plant.
UTE FDB Zeebrugge	10%	Madrid	Execution of work in the EPC engineering project, purchase, supply, construction and commissioning of the enlargement (5th tank) of the LNG terminal in Zeebrugge

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

	€ thousand	
	2019	**2018**
Assets:		
Non-current assets	-	-
Current assets	62,804	50,666
	62,804	**50,666**
Liabilities:		
Non-current liabilities	-	-
Current liabilities	(119,285)	(100,882)
	(119,285)	(100,882)
Net assets	**(56,481)**	**(50,216)**
Income	(778)	2,647
Expenses	(5,486)	(19,593)
Profit after tax	**(6,264)**	**(16,946)**

30. Director and senior management remuneration

a) Board of Directors

The breakdown of the remuneration accrued by members of the parent company's Board of Directors for their membership of the Board of Directors, by item, in 2019 and 2018 is as follows:

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

Directors did not receive any other benefits.

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

Furthermore, and as indicated in Note 33, on 30 January 2020 the Board of Directors co-opted Valeriano Gómez Sánchez as an independent director and accepted the resignation tendered by Ricardo de Guindos La Torre, effective 1 April 2020; and on 17 April 2020, after receiving a letter of resignation from Acacio F. Rodríguez García as Chairman of the Board of Directors, it was agreed to appoint Rosa Isabel Aza Conejo as Chairman of the Board of Directors and Jordi Sevilla Segura as independent director.

b) Senior Management

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

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

c) Loans to related parties

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

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

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

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

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

NOTE TO THE 2019 FINANCIAL STATEMENTS

(€ thousand)

31. Other related party transactions

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

2019	€ thousand								
	Transactions				Debit/(credit) balances				
GROUP COMPANIES	Revenue and other operating income	Supplies and other operating expenses	Finance income	Finance costs	Loans to Group companies	Trade receivables and other financial assets	Payables to group companies	Suppliers, group companies	Dividends received
a) Direct interest:									
Felguera I.H.I., S.A.	3,055	(3,723)	306	-	-	5,254	-	(3,845)	-
Duro Felguera Operaciones y Montajes, S.A.U	2,855	(262)	-	-	-	12,531	(8,032)	(2,356)	-
Duro Felguera Investment, S.A.U.	-	-	-	-	-	2,194	-	-	-
DF Mompresa, S.A.U.	827	(463)	-	-	-	262	(2,637)	(771)	-
DF Australia Pty Lda	3,193	-	669	-	-	948	-	-	-
Duro Felguera Oíl&Gas, S.A.U.	702	-	20	-	926	241	(16,109)	-	-
Equipamientos, Construcciones y Montaje, S.A. de CV	3,771	-	990	-	-	6,054	(3,182)	-	990
Proyectos e Ingeniería Pycor, S.A. de C.V.	61	(407)	-	-	-	197	-	(32)	-
Epicom, S.A.U.	386	-	3,966	(8)	-	3,966	(2,923)	(9)	3,966
Duro Felguera Argentina	-	-	4,600	-	9,317	31,678	-	(16,654)	-
Duro Felguera do Brasil	-	-	143	-	1,466	237	-	-	-
Duro Felguera Indonesia	-	-	-	-	-	948	-	-	-
Felguera Grúas India Private Limited	-	-	-	-	-	11,813	-	-	-
Turbogeneradores de Perú		-	1,751	-	241	798	-	-	1,741
Dunor Energía	(1,837)	-	299	-	6,387	2,120	(35)	-	-
Felguera Tecnologías de la Información, S.A.	57	-	22	-	-	99	-	-	22
DF Canada Ltd	17	-	1,007	(17)	-	367	(245)	-	1,007
DF Ingeniería Técnica de Proyectos y Sistemas, S.A.U.	-	-	-	-	-	-	-	-	70
Other group companies	-	-	70	-	663	72	(152)	-	-
	13,087	**(4,855)**	**13,843**	**(25)**	**19,000**	**79,779**	**(33,315)**	**(23,667)**	**7,796**

	€ thousand								
	Transactions				Debit/(credit) balances				
	Revenue and other operating income	Supplies and other operating expenses	Finance income	Finance costs	Loans to Group companies	Trade receivables and other financial assets	Other payables to group companies	Suppliers, group companies	Dividends received
b) Indirect interest:									
DF Técnicas de Entibación, S.A.U.	-	-	-	-	-	-	(5,140)	-	-
Duro Felguera Calderería Pesada, S.A.U.	974	(839)	-	-	-	20,770	-	(1,304)	-
Duro Felguera Raíl, S.A.U.	10	-	-	-	-	-	-	-	-
Opemasa Andina, Ltda	-	-	675	-	14,685	3,292	-	-	-
Turbogeneradores de Venezuela C.A.	-	-	-	-	1,645	389	-	-	-
	984	**(839)**	**675**	**-**	**16,330**	**24,451**	**(5,140)**	**(1,304)**	**-**
ASSOCIATES:									
Zoreda Internacional S.A	-	-	-	-	-	-	(17)	-	-
TOTAL	**14,071**	**(5,694)**	**14,518**	**(25)**	**35,330**	**104,230**	**(38,472)**	**(24,971)**	**7,796**

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

NOTE TO THE 2019 FINANCIAL STATEMENTS

(€ thousand)

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

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

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

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

At 31 December 2019 and 2018, no dividends or other benefits were paid to significant shareholders (Note 15).

32. Environmental disclosures

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

33. Events after the reporting period

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

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

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

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

NOTE TO THE 2019 FINANCIAL STATEMENTS

(€ thousand)

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

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

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

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

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

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

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

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

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

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

- On 14 April 2020, Duro Felguera, S.A. reached a unanimous agreement with the workers' representatives to submit a temporary workforce downsizing plan based on productive needs under the terms of Royal Decree Law 8/2020 of 17 March, on urgent and extraordinary measures to cope with the economic and social impact of COVID-19. The plan will affect the companies Duro Felguera, S.A. (DFSA), DF Operaciones y Montajes, S.A.U. (DFOM), DF Mompresa, S.A.U. (MOMPRESA), Felguera IHI, S.A.U. (FIHI) and Duro Felguera Oil & Gas, S.A.U.

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

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

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

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

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

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

- From 31 December 2019 to the date of authorisation for issue of these financial statements, a total of €66,567 thousand in collateral provided to third parties in the form of guarantees or deposits has either been cancelled or reduced, such collateral relating to the Termocentro, Cogeneración de Aconcagua, Puerto Ventanas and other projects (Note 28 b).

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

34. Auditors' fees

Fees accrued during the year by E&Y for the audit of the financial statements and other audit-related services amounted to €467 thousand (2018: €729 thousand for audit services).

Other non-audit services provided by companies using the E&Y brand amounted to €198 thousand (2018: €541 thousand).

35. Additional note for English translation

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

DURO FELGUERA, S.A.

2019 Management Report

DURO FELGUERA, S.A.

2019 MANAGEMENT REPORT

CORPORATE INFORMATION

GENERAL PERFORMANCE

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

The Company performed well in 2019, exceeding the profit guidance envisioned in the strategic plan.

With the overriding objective of generating cash, this result has been achieved by implementing a new organisational model focused on strict cost control and reducing risk exposure and by setting up a new Management Committee to further reduce the Group's cost structure. Agreements have been reached with different customers to renegotiate the contractual terms of various projects currently ongoing. Meanwhile, settlement agreements have been signed with a number of customers, thus generating liquidity for the Group and bringing an end to various lengthy and costly lawsuits and disputes. Last but not least, certain non-strategic assets have been sold, as envisioned in the strategic plan.

Revenue from sales in the year totalled €254 million (2018: €207.7 million), down 22.3% year-on-year.

The Company's debt stood at €7.3 million at 31 December 2019, down from €18.3 million at 31 December 2018.

Order intake totalled €3.6 million. The unavailability of the committed guarantee facility envisaged in the refinancing agreement signed in 2018 is making it difficult to achieve the levels of order intake envisioned in the strategic plan.

The order backlog at the end of the period stood at €354.1 million, of which €353.6 million (99.8%) relates to international projects.

Highlights in 2019 included:

- The presentation of the Group's strategic plan for 2019-2023.
- Renewal of the Company's management team. Organisational structure of the parent.
- Efficient cash management and control.
- Closure of the Madrid offices and mass relocation to the head offices in Gijón.
- Lower structural costs in general, and especially the cost of external consultants.
- Implementation of new control systems: Management Control, Risk Control and ICFR.

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

- maintaining ongoing negotiations with banks in order to raise the funds and guarantees needed for the Group's existing operations;

- searching for long-term industrial investors to strengthen its equity and cash positions, while liaising with all stakeholders and interested parties to obtain the necessary support for the Company;

- a process of renegotiating the contractual terms with customers of certain ongoing projects.

- making further efforts to secure new contracts and making the business structure more efficient.

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

	€ thousand	
	2019	**2018**
Revenue	254,043	207,698
EBITDA (3)	(1,542)	(66,247)
Profit/(loss) before tax	448	67,549
Order intake (2)	3,597	1,106
Order backlog (1)	354,100	637,199

(1) Order backlog: Defined as the amount pending execution of signed contracts held by the Company, calculated by subtracting the amount executed from the total amount of each contract:
(2) Order intake: defined as the total amount of contracts won in the year, calculated by adding the amounts of each contract signed during the year.
(3) EBITDA is earnings before interest, tax, depreciation and amortisation, and exchange differences.

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

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

Average headcount for the Company went from 659 employees at 31 December 2018 to 683 employees at 31 December 2019.

DURO FELGUERA, S.A.

2019 MANAGEMENT REPORT

DURO FELGUERA

Organisational structure

The Group specialises in executing turnkey projects for the energy, industrial and oil & gas facilities, providing industrial services and manufacturing capital goods, with a strong international business projection. It is organised in five business segments: Energy, Mining & Handling, Oil & Gas, Specialised Services, and Manufacturing and others.

Business model

DF is a person and knowledge-based group, specialising in projects that are tailored to our customers' needs. Given its international presence, the Group must analyse and manage risks in highly diverse economic, political and social environments. The Company currently obtains 95% of revenue from projects developed outside of Spain.

Corporate governance and Management Committee

The Board of Directors of the parent company is the chief operating decision-maker. At the date of authorisation for issue of these financial statements, it was composed of seven members (five independents). According to the By-laws, its main duties entail defining the strategy, remaining accountable to shareholders, drawing up the annual financial statements and presenting them to the Annual General Meeting, and overseeing management and financial reporting.

The Audit Committee comprises three members, all independent. Its main duties including supervising corporate governance, ensuring the transparency of the Company's actions, compliance with best practices in governance and with the rules of the Internal Code of Conduct, and informing the Board of any breach to be corrected, or, ultimately, reporting such breach to the shareholders at a General Meeting.

The Nomination and Remuneration Committee comprised three independent members at the date of authorisation for issue of these financial statements. Its main functions include examining the competences, knowledge and experience required of the Board of Directors, defining the remuneration policy, and overseeing a smooth and planned succession of board members.

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

The Group also added new members to the Management team during the period: a human resources manager, a financial director, a management control director, a legal counsel director, and a production director. A head of business development has joined the company after the reporting period.

BUSINESS OUTLOOK

The strategic plan for the 2019-2023 horizon is focused on cash generation and aims to achieve this based on the following principles defined around a realistic strategy:

- Ensuring that each project is self-financed: from the bid, analysing the cash flow of the project tendered to uncover potential requirements and assess viability. During execution, with a monthly review of each project's cash flows, analysing deviations and pre-empting occasional needs for finance, which will be raised locally, to complete the execution of the projects. A new project finance director was brought on board recently to enhance the Company's ability to obtain guarantees and financial projects at source.

- Emphasising profitability over growth: performing a critical cost-return assessment of each project in the bid phase via cross-cutting and multi-disciplinary teams within the Company.

- Working efficiently and controlling costs: performing exhaustive cost control with each project, with monthly analyses of deviations so that the right remedial measures are adopted immediately. A new management control director was hired recently, reporting directly to General Management and tasked with drawing up a comprehensive dashboard for the oversight and detailed analysis of each project and facilitating decision-making.

  Moreover, to drive contractual management from signing a new contractual management director was added who, liaising with the legal department, will oversee fulfilment of each contract.

- Reducing risk: focusing on the Company's current key business risk map, a new risk department director was appointed and the internal control over financial reporting (ICFR) system was updated.

- Redefining the strategic positioning: performing critical assessment of the current industry and international position and focusing on profitable core markets and segments, in line with the sector. Notably, the Company's strategy centres on the need to reinforce its four historically profitable segments (assembly and maintenance, mining and handling, heavy fabrication, and tanks), all of which generate recurring orders.

In summary, the directors, with the help of the Company's Management Committee, are taking all the necessary measures and actions to obtain appropriate financing to meet liquidity requirements and payment obligations in the ordinary course of operations. They are actively looking at different alternatives for analysis and negotiation. Accordingly, the directors of the Company have prepared the financial statements on a going concern basis, on the understanding that the negotiations currently under way will have a favourable outcome and that new projects will be secured in accordance with the strategic plan.

DURO FELGUERA, S.A.

2019 MANAGEMENT REPORT

MAIN RISKS AND UNCERTAINTIES

a) Market risk

(i) Foreign currency risk

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

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

- Most contracts are arranged in "multi-currency", separating the selling price in the various currencies from the expected costs and maintaining the expected margins in euros.

- Financing of working capital relating to each project is denominated in the currency of payment.

Foreign exchange risk arises when future commercial transactions or firm commitments, recognised assets and liabilities and net investments in foreign operations are denominated in a currency that is not the entity's functional currency. The Company's risk management policy is to hedge most of the forecast transactions over the life of each project. However, the operating units are responsible for taking decisions on arranging hedges, using external forward foreign currency contracts, with the involvement of the Company's Treasury Department. Nevertheless, there were no outstanding hedges at 31 December 2019.

(ii) Price risk

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

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

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

(iii) Cash flow and fair value interest rate risk

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

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

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

Based on the simulations performed, the impact on profit or loss of a 10 basis point shift would be an increase/decrease of €85 thousand (2018: €85 thousand).

b) <u>Credit risk</u>

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

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

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

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

Our main customers represent 84% of "Trade and other receivables" at 31 December 2019 (2018: 84%), relating to operations with the type of institutions indicated above. Accordingly, the Company considers that credit risk is extremely limited. In addition to the analysis performed before entering into a contract, the overall position of "Trade and other receivables" is monitored on an ongoing basis, while the most significant exposures (including the type of entities mentioned earlier) are monitored individually.

c) <u>Liquidity risk</u>

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 Company's Treasury Department is to maintain flexibility in funding by maintaining availability under committed credit lines. Management also monitors the forecasts for the Company's liquidity reserves based on estimated cash flows.

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

	€ thousand	
	2019	**2018**
Borrowings and derivatives (Notes 5, 12 and 18)	(87,835)	(96,850)
Less: Cash and cash equivalents (Note 14)	80,581	78,546
Net cash/(debt) position	(7,254)	(18,304)
Undrawn credit lines (Note 18)	-	-
Total liquidity surplus/(shortfall)	**(7,254)**	**(18,304)**

At 31 December 2019, €23,603 thousand were restricted as they were pledged for the issue of guarantees for projects or cash deposits made in place of project guarantees (2018: €15,609 thousand).

As discussed in the previous section, the Company undertook a series of strategic measures in 2019 to improve its liquidity.

DERIVATIVE FINANCIAL INSTRUMENTS

At 31 December 2019 and 2018, the Company held no derivative financial instruments.

TREASURY SHARE TRANSACTIONS

At 31 December 2019 and 2018, the Company did not hold any treasury shares.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Company's business model attaches great importance to technological innovation, with sustained growth through technological development as one of its corporate values.

AVERAGE PAYMENT PERIOD TO SUPPLIERS

Note 23 to the financial statements provides information on the average payment period to suppliers.

DURO FELGUERA, S.A.

2019 MANAGEMENT REPORT

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- On 14 April 2020, Duro Felguera, S.A. reached a unanimous agreement with the workers' representatives to submit a temporary workforce downsizing plan based on productive needs under the terms of Royal Decree Law 8/2020 of 17 March, on urgent and extraordinary measures to cope with the economic and social impact of COVID-19. The plan will affect the companies Duro Felguera, S.A. (DFSA), DF Operaciones y Montajes, S.A.U. (DFOM), DF Mompresa, S.A.U. (MOMPRESA), Felguera IHI, S.A.U. (FIHI) and Duro Felguera Oil & Gas, S.A.U.

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

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

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

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

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

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

- From 31 December 2019 to the date of authorisation for issue of these financial statements, a total of €66,567 thousand in collateral provided to third parties in the form of guarantees or deposits has either been cancelled or reduced, such collateral relating to the Termocentro, Cogeneración de Aconcagua, Puerto Ventanas and other projects (Note 28 b).

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

ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report for 2019 is attached as an appendix and forms an integral part hereof, as provided in article 526 of the Corporate Enterprises Act.

NON-FINANCIAL STATEMENT

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

OTHER RELEVANT INFORMATION

Stock market data

The main stock-market data for 2019 and 2018 are as follows:

	2019	**2018**
Closing price	0.357	0.575
High (€)	0.9250	29.9
Low (€)	0.191	0.37
Trading volume (‘000 shares)	327,422	115,704
Cash (€ thousand)	141,829	230,128
Number of shares (x 1.000)	96,000	4,800,000
Market cap at year-end (Thousands of euros)	34,272	55,200

Source: Madrid Stock Exchange

Dividend policy

The financing agreement that became effective on 27 July 2018 allows the distribution of cash dividends (except for interim dividends), provided all the following conditions are met:

- the Company obtains a profit for the period;
- losses do not exist from previous years that reduce the Company’s equity to below share capital;
- the distribution does not reduce the amount of equity to below share capital;
- the amount of cash after the distribution must be greater than zero;
- the gearing ratio is below 3.00x; and
- the Bound Parties are up to date in compliance with their obligations derived from the Financing Documents, and there has been no default event (nor will occur as a result of the distribution).

In addition, before dividends are distributed to shareholders, the Company must first repay and/or replace early the Syndicated Financing (Note 18) in an amount equal to the dividend to be distributed.

ISSUER'S IDENTIFICATION

Year-end date: 31/12/2019

Tax identification code [CIF]: A-28004026

Company Name:

DURO FELGUERA, S.A.

Registered office:

ADA BYRON, 90, PARQUE CIENTÍFICO Y TECNOLÓGICO (GIJÓN) – ASTURIAS

A. CAPITAL STRUCTURE

A.1. Complete the following table on the company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
27/07/2018	48,000,000.00	4,800,000,000	4,800,000,000

Please state whether there are different classes of shares with different associated rights:
[ ] Yes
[√] No

At the General Meeting of 31 May 2019, the shareholders resolved to (i) decrease share capital by 43,200,000 euros by reducing the par value of all shares in order to restructure the Company's equity, leaving share capital at 4,800,000 euros; and (ii) to group together and cancel ("reverse split") all the shares comprising the Company's share capital to exchange them for newly issued shares in the proportion of one (1) new share for every fifty (50) old shares, increasing the par value of the shares from the one thousandth of a euro (€0.001) established after the share capital reduction, to five euro cents (€0.05), without modifying the share capital figure, thereby reducing the number of shares in circulation.

As a result of the above, from 31 May 2019 share capital was decreased by 43,200,000 euros to 4,800,000 euros.

A.2. Please provide details of the company's significant direct and indirect shareholders at year end, excluding any directors:

Name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
SABINO GARCÍA VALLINA	0.00	3.12	0.00	0.00	3.12
INDUMENTA PUERI, S.L.	0.00	7.57	0.00	0.00	7.57

Breakdown of the indirect holding:

Name or corporate name of indirect owner of the interest	Name or corporate name of direct owner of the interest	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
SABINO GARCÍA VALLINA	TSK ELECTRONICA Y ELECTRICIDAD, S.A.	3.12	0.00	3.12
INDUMENTA PUERI, S.L.	GLOBAL PORTFOLIO INVESTMENTS, S.L.	7.57	0.00	7.57

State the most significant shareholder structure changes during the year:

Most significant movements
Following the capital reduction and subsequent increase implemented in 2013, the company substantially modified its shareholder structure in such a way that the former leading shareholders reduced their holdings to a residual position. In 2019, the following became significant shareholders: Global Portfolio Investments, S.L with a direct interest of 9.52% and Indumentaria Pueri, S.L., with the same interest as an indirect shareholder. La Muza Inversiones Sicav, SA with 5.17% as a direct shareholder and Abaco Capital SCIIC, SA, as an indirect shareholder with an equal stake. Global Income SA SPF, with a direct interest of 4.17%. TSK Electrónica y Electricidad, SA, a shareholder with a 3.12% interest, and Sabino García Vallina as an indirect shareholder with the same stake. Azvalor Iberia Fl, Mimosa Capital Sicav, Azvalor Internacional, Azvalor Value Selection Sicav SA, Cuenta Gestionada Salus (Aspen Trust Services), which together had a direct shareholding of 3.08%, and Alvaro Guzmán de Lázaro Mateos-Azvalor Asset Management SGICC SA, which, indirectly, through the above entities, controlled 3.08%. Over the course of 2019, the significant shareholders reduced their holdings. Only those named in Section A.2 above remained as significant shareholders.

A.3. In the following tables, list the members of the Board of Directors (hereinafter “directors”) with voting rights in the company:

Name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
ACACIO FAUSTINO RODRIGUEZ GARCIA	0.17	0.01	0.00	0.00	0.18	0.00	0.00
JOSÉ JULIÁN MASSA GUTIÉRREZ DEL ÁLAMO	0.03	0.00	0.00	0.00	0.03	0.00	0.00

Total percentage of voting rights held by the Board of Directors	0.21

Breakdown of the indirect holding:

Name of director	Name or corporate name of direct owner of the interest	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights	% voting rights that can be transmitted through financial instruments
ACACIO FAUSTINO RODRIGUEZ GARCIA	LOS CLÁSICOS Z, S.L.	0.01	0.00	0.01	0.00

A.4. If applicable, state any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are insignificant or arise in the ordinary course of business, except those that are reported in Section A.6:

Name of related party	Nature of relationship	Brief description
No data		

A.5. Indicate, as applicable, commercial, contractual or corporate relationships among owners of significant shareholdings and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Name of related party	Nature of relationship	Brief description
No data		

A.6. Describe the relationships, unless insignificant for the two parties, that exist between significant shareholders or shareholders represented on the Board and directors, or their representatives in the case of proprietary directors.

Explain, as the case may be, how the significant shareholders are represented. Specifically, state those directors appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders and/or companies in its group, specifying the nature of such relationships or ties. In particular, mention the existence, identity and post of directors, or their representatives, as the case may be, of the listed company, who are, in turn, members of the Board of Directors or their representatives of companies that hold significant shareholdings in the listed company or in group companies of these significant shareholders.

Name or company name of related director or representative	Name or company name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
No data			

Not applicable, as there are no Directors appointed by significant shareholders.

A.7. Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Corporate Enterprises Act (*Ley de Sociedades de Capital* or "LSC"). If so, describe these agreements and list the party shareholders:

[ ] Yes
[√] No

State whether the company is aware of any concerted actions among its shareholders. If so, provide a brief description:

[ ] Yes
[√] No

If any of the aforementioned agreements or concerted actions have been modified or terminated during the year, please specify expressly:

No amendments were made.

A.8. State whether any individual or company exercises or may exercise control over the company in accordance with Article 5 of the Ley de Mercados de Valores ("Spanish Securities Market Act" or "LMV"). If so, please identify them:

[ ] Yes
[√] No

A.9. Complete the following table with details of the company's treasury shares:

At the close of the year:

Number of direct shares	Number of indirect shares (*)	Total percentage of share capital
		0.00

(*) through:

Name or corporate name of direct owner of the interest	Number of direct shares
No data	

Explain any significant changes during the year:

Explain significant changes

Since total redemption of treasury shares in 2018, the Company has not concluded any transactions.

A.10. Provide a detailed description of the conditions and terms of the authority given to the Board of Directors to issue, repurchase, or dispose of treasury shares.

At a General Meeting, the shareholders authorised the Board of Directors to carry out the derivative acquisition of treasury shares up to the maximum amount permitted by prevailing legislation for a period of five years from the date of the General Meeting, held on 22 June 2017.

A.11. Estimated free float

	%
Estimated free float	85.43

A.12. State whether there are any restrictions (articles of association, legislative or of any other nature) placed on the transfer of shares and/or any restrictions on voting rights. In particular, state the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market, and those regimes for the prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

[ ] Yes
[√] No

A.13. Indicate whether the General Meeting has agreed to take neutralisation measures to prevent a takeover bid under Law 6/2007.

[ ] Yes
[√] No

If so, please explain the measures approved and the terms under which such limitations would cease to apply:

A.14. State if the company has issued shares that are not traded on a regulated EU market.

[ ] Yes
[√] No

If so, please list each type of share and the rights and obligations conferred on each.

B. GENERAL MEETING

B.1. State whether there are any differences between the quorum established by the LSC for General Shareholders' Meetings and those set by the company and if so, describe them in detail:

[ ] Yes
[√] No

B. 2. Indicate and explain, if appropriate, if there are any differences with the system stipulated in the Corporate Enterprises Act (LSC) for adopting corporate resolutions.

[ ] Yes
[√] No

B.3. State the rules for amending the company's Articles of Association. In particular, state the majorities required for amendment of the Articles of Association and any provisions in place to protect shareholders' rights in the event of amendments to the Articles of Association.

The applicable rules are those provided in the Corporate Enterprises Act.

B.4. Give details of attendance at General Shareholders' Meetings held during the year of this report and the previous year:

	Attendance data				
General Meeting date	% In person	% By proxy	% remote voting		
			Online	Other	Total
22/06/2017	11.09	45.36	0.00	0.00	56.45
Free float votes	11.09	5.35	0.00	0.00	16.44
15/06/2018	2.27	38.28	0.00	0.00	40.55
Free float votes	2.27	23.28	0.00	0.00	25.55
25/06/2018	1.94	38.43	0.00	0.00	40.37
Free float votes	1.94	23.43	0.00	0.00	25.37
31/05/2019	3.72	30.29	0.00	0.00	34.01
Free float votes	3.71	8.91	0.00	0.00	12.62

B.5. State whether any point on the agenda of the General Shareholders' Meetings during the year has not been approved by the shareholders for any reason.

[ ] Yes
[√] No

B.6. State if the Articles of Association contain any restrictions requiring a minimum number of shares to attend General Shareholders' Meetings, or on distance voting:

[√] Yes
[ ] No

Number of shares required to attend General Meetings	400
Number of shares required for distance voting	

B.7. State whether it has been established that certain decisions other than those established by law exist that entail an acquisition, disposal or contribution to another company of essential assets or other similar corporate transactions that must be subject to the approval of the General Shareholders' Meeting.

[ ] Yes
[√] No

B.8. State the address and manner of access to the page on the company website where one may find information on corporate governance and other information regarding General Shareholders' Meetings that must be made available to shareholders through the company website.

www.durofelguera.com

The website includes an "Investor Area". The pull-down menu includes the section "Corporate Governance", on the corporate governance of the company. The section provides details to shareholders on how to attend general meetings, and corporate governance reports for recent financial years.

C. COMPANY ADMINISTRATIVE STRUCTURE

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors established in the Articles of Association and the number set by the general meeting:

Maximum number of directors	12
Minimum number of directors	6
Number of directors set by the general meeting	8

C.1.2 Please complete the following table on directors:

Name of director	Representative	Director category	Position on the Board	Date first appointed	Last re-election date	Election procedure
JOSÉ MARÍA ORIHUELA UZAL		Executive	CHIEF EXECUTIVE OFFICER	30/11/2018	30/11/2018	CO-OPTION
RICARDO DE GUINDOS LATORRE		Independent	DIRECTOR	29/03/2018	15/06/2018	GENERAL MEETING RESOLUTION
IGNACIO SORIA VIDAL		Independent	DIRECTOR	29/03/2018	15/06/2018	GENERAL MEETING RESOLUTION
ACACIO FAUSTINO RODRIGUEZ GARCIA		Other external	CHAIRMAN	23/06/2011	22/06/2017	GENERAL MEETING RESOLUTION
JOSÉ JULIÁN MASSA GUTIÉRREZ DEL ÁLAMO		Independent	DIRECTOR	30/09/2019	30/09/2019	CO-OPTION
ROSA ISABEL AZA CONEJO		Independent	DIRECTOR	30/09/2019	30/09/2019	CO-OPTION

Total number of directors	6

State if any directors, whether through resignation, dismissal or any other reason, have left the Board during the period subject to this report:

Name of director	Category of director at the time of departure	Last re-election date	Date director left	Committees of which he/she was a member	Indicate whether the director left before the end of the term
MARTA ELORZA TRUEBA	Independent	30/08/2018	17/09/2019	Audit Committee	YES
LORETO ORDÓÑEZ SOLÍS	Independent	29/11/2018	30/09/2019		YES
JUAN MIGUEL SUCUNZA NICASIO	Independent	23/07/2018	30/09/2019	Audit Committee and Nomination and Remuneration Committee	YES
ALEJANDRO LEGARDA ZARAGÜETA	Independent	23/07/2018	17/09/2019	Audit Committee and Nomination and Remuneration Committee	YES

Reason for leaving and other remarks

Rosa Isabel Aza Conejo was co-opted to replace Marta Elorza Trueba.

José Julián Massa Gutiérrez del Álamo was co-opted to replace Alejandro Legarda Zaragüeta.

Both appointments are pending ratification by the shareholders at a General Meeting.

The reasons given by the Directors at the time they tendered their resignation are indicated below:

1. Marta Elorza Trueba indicated that other professional duties prevented her from continuing on the Board as they entailed a degree of dedication that was incompatible with her position as a Director of the Company.
2. Alejandro Legarda Zaragüeta said he had resigned because of differences with the CEO. He stated that these differences were shared by other Directors, and that he himself was especially affected by the issue in his capacity as Lead Director.
3. Loreto Ordóñez Solis explained that business and personal reasons led to her decision: the dedication required by the Company at that time was incompatible with her duties elsewhere.
4. Juan Miguel Sucunza Nicasio said he was unable to perform the duties of his office due to duties elsewhere. He was unable to provide the exceptional dedication and care that Duro Felguera required at that specific stage.

From year-end 2019 to the date of this report, Jordi Sevilla Segura and Valeriano Gómez Sánchez were appointed as Independent Directors.

C.1.3 Complete the following tables regarding the members of the Board and their categories:

EXECUTIVE DIRECTORS		
Name of director	Post in organisational chart of the company	Profile
JOSÉ MARÍA ORIHUELA UZAL	CHIEF EXECUTIVE OFFICER	Ingeniero de Caminos, Canales y Puertos [equiv. MSc Civil Engineering]. He has more than 25 years of experience in the engineering and infrastructure sector, where he has held the position of chairman or CEO at several companies.

Total number of executive directors	1
Percentage of Board	16.67

He was appointed as CEO on 30 November 2018, replacing Acacio Faustino Rodríguez Garcia, who became Chairman of the Board without executive powers and outside management.

EXTERNAL PROPRIETARY DIRECTORS		
Name of director	Name or company name of significant shareholder represented or that has proposed their appointment	Profile
No data.		

INDEPENDENT DIRECTORS	
Name of director	Profile
RICARDO DE GUINDOS LATORRE	An economist and auditor, and a professor on leave from the Universidad Complutense de Madrid and the School of Public Finance for training central government tax inspectors. He is a former government financial and tax inspector and has held senior positions in that capacity. He is currently the leading partner at a law practice, a professor of Tax Inspection Procedure for the master's degree course in taxation at the Universidad C.E.U. San Pablo and the Universidad Francisco de Vitoria, and an independent director at EUROPAC.
IGNACIO SORIA VIDAL	An Industrial Engineering graduate, he holds a Master of Business Administration degree from Case Western Reserve University, Cleveland, USA. He has held senior positions at Citibank, Banco Vizcaya, General de Mediación y Bolsa and SVB. He was director of Capital Markets at Swiss Bank Corporation in London and Madrid, deputy general manager and head of Corporate Banking at Caja Madrid and head of Corporate Banking at Bankia. He has also held directorships at Mapfre Global Risks, Mapfre España, Bankia Banca Privada, Mecalux, Mapfre Seguros de empresa and Tavex, where he remains a director.
ROSA ISABEL AZA CONEJO	After graduating in Economics and Business Studies at the University of Santiago de Compostela she taught at the School of Commerce in Gijón. From 1976 to 2000 she was a professor in the Department of Economics at the University of Oviedo, teaching at the School of Business Studies and the School of Industrial Engineering. From 1998 to 2004 she was the Director of the University School of Business Studies of Gijón at the University of Oviedo. During this period she was also the Director of the Master's degree course in Transport and Logistics Management and of the Higher Degree in Tourism at the University of Oviedo. From 2000 to 2010 she combined university teaching with directorships and board roles: - Member of the Board of Directors of the Caja de Ahorros de Asturias - Member of the Board of Directors of SADEI (Sociedad Asturiana de Estudios Económicos e Industriales) - Member of the Board of Directors of TELECABLE. - Member of the Board of Directors of Consorcio de la Feria Internacional de Muestras de Asturias. - Chairman of the Control Committee of Caja de Ahorros de Asturias. - Chairman of the Board of Directors of AUCALSA (Astur-Leones motorway concessionaire). – Chairman of the Board of Directors of VIASTUR (Autopista Concesionaria Principado de Asturias). From 2010 to 2016 she held the position of President of the National Commission of the Postal Sector and of the Port Authority of Gijón. In 2016 she returned to the University of Oviedo, undertaking teaching activities and speaking at Master's degree courses and conferences at several universities. She is currently a member of the Development Advisory Board of the Ministry of Development. Her extensive research work focuses mainly on the economic analysis of tourism, transport and related infrastructure, and she is the author of academic papers and books in these fields.

JOSÉ JULIÁN MASSA GUTIÉRREZ DEL ÁLAMO	State Economist, graduating in first position in his class. Doctor of Economics, Master of International Economics and graduate of Economics and Business Studies from the University of Deusto. He has dedicated his career to the financial markets, creating the Spanish futures and options market and developing the IBEX 35 index. He is the former CEO of MEFF and chairman of Iberclear. He has extensive experience as a director of various companies, including Hunosa. Repsol Exploration, MexDer, AIAF, ECofex, Enusa, Bandesco and RegisTR. He combines his professional activity with teaching at the CUNEF business and finance school.

Total number of independent directors	4
Percentage of Board	66.67

State whether any independent director receives from the company or any company in the group any amount or benefit other than compensation as a director, or has or has had a business relationship with the company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director or senior executive of a company that has or has had such a relationship.

In this case, include a statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director.

Name of director	Description of the relationship	Statement of the Board
No data		

Not applicable.

OTHER EXTERNAL DIRECTORS			
Identify the other external directors and state the reasons why these directors are considered neither proprietary nor independent, and detail their ties with the company or its management or shareholders:			
Name of director	**Reason**	**Company, director or shareholder to whom the director is related**	**Profile**
ACACIO FAUSTINO RODRIGUEZ GARCIA	In accordance with the *Ley de Sociedades de Capital* [Spanish Companies Act], article 529 *duodecies* (4) (a), a former executive director of a group company cannot qualify as an independent director until five years have elapsed since the cessation of that relationship. Since the cessation took place in November 2018, the statutory period for his qualifying as an independent has not yet elapsed.	DURO FELGUERA, S.A.	Mr Rodríguez holds a degree in Industrial and Chemical Engineering from the Universidad de León, and an MBA from Instituto de Empresa. He is a member of the Advisory Board of the University of Mississipi in Europe and of the American Management Association. Mr Rodríguez is General Manager-Founder of Unilog Consultores Industriales, which provides consulting on strategy, operations and benchmarking for the steel, metal, energy, industrial, renewable energy and industrial parts industries for institutions, owners and investors from different countries. As industrial consultant for the European Union, he has participated in negotiations between the EU and Slovenia, Russia, Romania, Bulgaria and other countries. He was CEO of CSI Siderúrgica and Aceralia, also holding the posts of Head of the Competitiveness and Restructuring Plan at these companies, and CEO of Ensidesa, Altos Hornos del Mediterráneo and AHV Altos Hornos de Vizcaya, overseeing their mergers and stock market flotation. He is a former CEO of Pegaso and Seddon Atkinson Ltd (UK), where he helped lead the restructuring and industrial modernisation of the automotive group, which has plants in several countries and operates in the industrial vehicle, passenger transport and military vehicle business lines. He is also ex-Director General of Fujitsu España and Financial Systems Analyst for Ford Europe and Ford France. He is currently a Director of TM&M Ltd (UK). Business Gate

Total number of other external directors	1
Percentage of Board	16.67

State any change in status that has occurred during the period for each director:

Name of director	Date of change	Previous Status	Current status
No data			

C.1.4 Complete the following table with information relating to the number of female directors at the close of the past 4 years, as well as the category of each:

	Number of women directors				% total directors in each category			
	Year 2019	Year 2018	Year 2017	Year 2016	Year 2019	Year 2018	Year 2017	Year 2016
Executive					0.00	0.00	0.00	0.00
Proprietary					0.00	0.00	0.00	0.00
Independent	2	2	1		33.33	33.33	33.00	0.00
Other external					0.00	0.00	0.00	0.00
Total	2	2	1		33.33	25.00	12.50	0.00

In 2019 there were two female independent directors. Both resigned in the second half of September. Two new independent directors were co-opted, one of whom is a woman.
For the purposes of calculation for 2019, two female directors were considered.

C.1.5 State whether the company has diversity policies in relation to the Board of Directors of the company on such questions as age, gender, disability and training and professional experience. Small and medium-sized enterprises, in accordance with the definition set out in the Accounts Audit Act, will have to report at least the policy they have implemented in relation to gender diversity.

[ ] Yes
[√] No
[ ] Partial policies

Should this be the case, describe these diversity policies, their objectives, the measures and way in which they have been applied and their results over the year. Also state the specific measures adopted by the Board of Directors and the appointments and remuneration committee to achieve a balanced and diverse presence of directors.

In the event that the company does not apply a diversity policy, explain the reasons why.

Description of policies, objectives, measures and how they have been implemented, including results achieved

The Company does not operate a diversity policy or any other of the policies mentioned in this rubric because the principle that guides the Company in appointing Directors is the corporate interest. To achieve this purpose, the Company searches for and selects candidates who provide the most suitable professional profile and track record to meet the Company's requirements, regardless of gender, age or ethnicity. The search for directors ensures that they have the training and profile that makes the right fit with the Company's aims. Subsequently, in the case of similar profiles, the candidate of the underrepresented gender is chosen.

Throughout 2019, several changes took place in the membership of the Company's management body: four resignations and two appointments by co-option. The resignations included those of the two independent directors (Marta Elorza Trueba and Loreto Ordóñez Solís). Two new independent directors were co-opted, one of whom is Rosa Isabel Aza Conejo. Two vacancies remained unfilled at 31 December 2019.

C.1.6 Describe the means, if any, agreed upon by the appointments committee to ensure that selection procedures do not contain hidden biases which impede the selection of female directors and that the company deliberately seeks and includes women who meet the target professional profile among potential candidates and which makes it possible to achieve a balance between men and women:

Explanation of measures

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

The Company's Corporate Governance Policy provides that the Company should ensure that the procedures for selecting members favour a diversity of gender, experience and knowledge and have no implicit bias whatsoever and that, in particular, they favour the selection of women directors. Accordingly, the Nomination and Remuneration Committee's policy, in line with the doctrine enshrined in High Jurisprudence regarding "positive discrimination", states that in the search for candidates that best adapt to the corporate interest, the profile that contributes most professionally to the Company shall be considered. However, where two profiles are objectively similar, priority will be given to the least represented gender.

In the event that there are few or no female directors in spite of any measures adopted, please explain the reasons that justify such a situation:

Explanation of means

The procedures for selecting directors do not have any implicit bias against women candidates, as professional profiles are chosen in accordance with needs of the Company.

C.1.7 Describe the conclusions of the appointments committee regarding verification of compliance with the selection policy for directors; in particular, as it relates to the goal of ensuring that the number of female directors represents at least 30% of the total membership of the Board of Directors by the year 2020.

Throughout 2019, several changes took place in the membership of the Company's management body: four resignations and two appointments by co-option. The resignations included those of the two independent directors (Marta Elorza Trueba and Loreto Ordóñez Solís). Two new independent directors were co-opted, one of whom is Rosa Isabel Aza Conejo. Two vacancies remained unfilled at 31 December 2019.

The Nomination and Remuneration Committee will re-evaluate its selection policy to continue increasing the number of women Directors on the Board with the objective of achieving compliance with the recommendation in 2020.

C.1.8 If applicable, please explain the reasons for the appointment of any proprietary directors at the request of shareholders with less than a 3% equity interest:

Name of shareholder	Reason
No data	

State whether the Board has failed to meet any formal requests for membership from shareholders whose equity interest is equal to or higher than that of others at whose request proprietary directors have been appointed. If this is the case, please explain why the aforementioned requests were not met:

[ ] Yes
[√] No

C.I.9 State the powers delegated by the Board of Directors, as the case may be, to directors or Board committees:

Name of director or committee	Brief description
JOSÉ MARÍA ORIHUELA UZAL	The Board of Directors has delegated to the Chief Executive Officer all powers that are delegable under the law and the Bylaws.

C.1.10 Identify any members of the Board who are also directors or officers in other companies in the group of which the listed company is a member:

Name of director	Name of company group member	Position	Does the director have executive powers?
No data			

C.1.11 List any directors or legal-person directors of your company who are members of the Board of Directors or representatives of legal-person directors of other companies listed on official securities markets other than group companies, and have communicated that status to the Company:

Name of director	Name of listed company	Position
RICARDO DE GUINDOS LATORRE	EUROPAC	DIRECTOR

C.1.12 State whether the company has established rules on the number of boards on which its directors may hold seats, providing details if applicable, identifying, where appropriate, where this is regulated:

[√] Yes
[ ] No

Explanation of the rules and identification of the document where this is regulated

Under article 7.6. of the Regulations of the Board, a director may not serve on the boards of more than five companies listed on domestic or foreign markets.

C.1.13 State total remuneration received by the Board of Directors:

Board remuneration in financial year (thousand euros)	925
Amount of vested pension interests for current members (thousand euros)	
Amount of vested pension interests for former members (thousand euros)	

C.1.14 Identify senior management staff who are not executive directors and their total remuneration accrued during the year:

Name	Position	
JAVIER GARCÍA LAZA	Deputy Director to Chief Executive Officer	
ALFONSO GORDON GARCÍA-SALCEDO	Head of Human Resources and Organisation	
MARÍA CAMINO SÁNCHEZ RODRÍGUEZ	Head of Research and Bidding	
CRISTINA QUÍLEZ SARDÁ	Head of Legal Advisory for Business	
ÁNGEL LUIS PÉREZ GONZÁLEZ	Head of Corporate Production	
JOSÉ OLASO AYESTA	Head of the Technical Corporate Office	
GONZALO FERNÁNDEZ-ORDÓÑEZ CERVERA	Head of the Economic-Financial Department	
SECUNDINO FELGUEROSO FUENTES	Head of Legal Affairs	
JUAN JOSÉ HERRERO RODRÍGUEZ	Head of Corporate Production	
MIGUEL ÁNGEL PEÑA PENILLA	Head of Corporate Marketing and Sales	
JOSÉ CARLOS CUEVAS DE MIGUEL	Head of the Economic-Financial Department	
Total senior management remuneration (thousand euros)		1,379

All the executives who formed part of the Management Committee during 2019 are within the scope of the disclosure, even though some of them have ceased to be considered senior executives.

Total senior management remuneration is the total received by all senior management members, including those who have ceased to be senior management staff. In the latter case, remuneration for senior managers who stepped down during the period is calculated pro rata their time within the period as senior managers.

Securdino Felgueroso Fuentes - Head of Legal Affairs Up to 30/06/2019
Juan losé Herrero Rodríguez - Head of Corporate Production Up to 31/07/2019
Miguel Ángel Pena Penilla - Head of Corporate Marketing and Sales Up to 03/09/2019
José Carlos Cuevas de Miguel - Head of Finance Up to 11/03/2019.

C.1.15 State whether the Board rules were amended during the year:

[v] Yes
[ ] No

Description of amendments

The changes relate to the powers of the Audit, Risk and Compliance Committee and the Nomination and Remuneration Committee. See section H.

C.1.16 Specify the procedures for selection, appointment, re-election and removal of directors: the competent bodies, steps to follow and criteria applied in each procedure.

In 2015, the Board of Directors approved a “Director Nomination and Selection Policy” which, in general, establishes a subjective scope of application for natural person directors and, in the case of legal person candidates, the natural persons that will represent them.

The process and the procedure is summarised as follows: The Company’s Nomination and Remuneration Committee proposes the nomination or re-election of independent directors, while the Board of Directors is responsible for nominating or re-electing proprietary, executive and other external directors. Within the framework of the process of selecting prospective candidates for seats on the Board of Directors, and notwithstanding the competencies of the General Meeting, the Nomination and Remuneration Committee will have the following authorities:

- Evaluate the competencies, knowledge and experience necessary for the Board of Directors. To this end, the Committee shall define the duties and capabilities necessary in candidates who shall fill each vacancy and evaluate the time and dedication necessary in order to efficiently fulfil their commitment.
- Submit to the Board of Directors, proposals for the appointment of independent directors for their nomination through co-option or for their submission to the General Meeting's decision, in addition to proposals for the re-election or dismissal of said directors by the General Meeting.
- Report on any proposals for appointment of all other directors for their appointment by co-option by the Board or for their submission to the General Meeting's decision, in addition to proposals for the re-election or dismissal of such directors by the General Meeting.
- Set a target for representation for the underrepresented gender on the Board, in accordance with the most authoritative case-law on so-called "Positive Discrimination", and draw up guidelines on how to achieve this objective.

C.1.17 Explain how the annual evaluation of the Board has given rise to significant changes in its internal organisation and to procedures applicable to its activities:

Description of amendments

The annual evaluation is not expected to give rise to any changes.

Describe the evaluation process and the areas evaluated by the Board of Directors with the help, if any, of external advisors, regarding the function and composition of the board and its committees and any other area or aspect that has been evaluated.

Description of the evaluation process and evaluated areas

The evaluation process is based on the recommendations of the CNMV in Technical Guide 1/2019, Nomination and Remuneration Committee (*Guia Técnica 1/2019 Comisión de Nombramientos y Remuneraciones*).

For the 2019 evaluation, we shall hold at least two individual sessions with each director involving in-depth analysis of strengths and areas for improvement, among other assessment steps, to enable us to judge his or her contribution of value to the Board and the Company.
The following criteria, among others, apply:

- Contribution of knowledge, decision-making skills and experience.
- Fit and complementarity with other Directors.
- Knowledge about the company, its business performance, the industry and the political, economic and social settings.
- Integrity: Trustworthiness and ability to create confidence among shareholders.
- Maturity, ethical attitude, responsibility and discretion.
- Own judgement and ability to argue effectively in a constructive debate.
- Dedication: Availability of time and dedication as required to carry out duties and responsibilities.
- Awareness of and appropriate response to the potential civil, criminal and tax liabilities attaching to a Board role.
- Spirit of cooperation and teamwork, empathy and results-oriented attitude.
- Independence: No professional, business or family ties to the company, its majority or significant shareholders or company subsidiaries. Potential conflicts of interest.

Individual working sessions are supported by a self-assessment questionnaire to be completed by each project participant. In this questionnaire he or she states views on the governing bodies.

C.1.18 Describe, in those years in which the external advisor has participated, the business relationships that the external advisor or any group company maintains with the company or any company in its group.

In 2019 the annual evaluation of the Board was assisted by an external consultant with whom we have in place a contract for specific executive search and selection services.

C.1.19 State the situations in which directors are required to resign.

Directors must tender their resignations in the circumstances provided for by law. They must also tender their resignation from the Board and, as appropriate, resign in accordance with article 24.2 of the Board Regulations in the following situations:

a) When due to circumstances they come under one of the grounds for disqualification or prohibition established in law, the Bylaws or these Regulations.

b) When they lose credibility, suitability, solvency, competency, availability or commitment to the duties necessary to be a Director of the Company.

c) When their presence on the Board may jeopardise for any reason, and directly, indirectly or through their affiliates, the loyal and diligent discharge of their duties in accordance with the corporate interest.

d) When the reasons for which they were appointed cease to exist and, in particular, when the shareholder or shareholders that proposed, required or determined their appointment, dispose, in part or in full, of their shareholding, resulting in the loss of their status as a qualifying or sufficient shareholder to justify the appointment.

e) When an independent director comes under any of the impediments provided in Article 8.1.c) of the Board of Directors' Regulations.

f) When circumstances arise that could harm the Company's name and reputation, in particular when directors are investigated for any crime, they must resign if the Board, after a report from the Nomination and Remuneration Committee, deems it appropriate. Similarly, if, once the investigation has been completed, an oral trial is ordered to commence, the Director must again place his or her position at the disposal of the Board and resign if the Board, following a report by the Nomination and Remuneration Committee, deems it appropriate.

C.1.20 Are qualified majorities other than those established by law required for any specific decision?

[ ] Yes
[√] No

If so, please describe any differences.

C.1.21 Explain whether there are any specific requirements, other than those relating to directors, to be appointed as chairman of the Board of Directors.

[ ] Yes
[√] No

C.1.22 State whether the Articles of Association or the Board Rules establish any limit as to the age of directors:

[ ] Yes
[√] No

C.1.23 State whether the Articles of Association or the Board Rules establish any term limits for independent directors other than those required by law:

[ ] Yes
[√] No

C.1.24 State whether the Articles of Association or Board Rules establish specific proxy rules for votes at Board meetings, how they are to be delegated and, in particular, the maximum number of delegations that a director may have, as well as if any limit regarding the category of director to whom votes may be delegated and whether a director is required to delegate to a director of the same category. If so, please briefly describe the rules.

No.

C.1.25 State the number of meetings held by the Board of Directors during the year, and if applicable, the number of times the Board met without the chairman present. Meetings where the chairman sent specific proxy instructions are to be counted as attended.

Number of Board meetings	28
Number of Board meetings without the chairman	0

State the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

Number of meetings	0

Please specify the number of meetings held by each committee of the Board during the year:

Number of meetings held by the Audit Committee	19
Number of Meetings held by the Appointments and Remuneration Committee	11

C.1.26 State the number of meetings held by the Board of Directors during the year in which all of its directors were present.

Number of meetings attended in person by at least 80% of directors	28
% of attendance in person over total votes during the year	99.00
Number of meetings attended in person, or by proxy but with specific directions, by all directors	28
% of votes cast by members attending in person, or by proxy but having given specific directions, out of all votes cast during the year	99.00

C.1.27 State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

[ ] Yes
[√] No

Identify, if applicable, the person/s who certified the individual and consolidated financial statements of the company for preparation by the Board:

C.1.28 Explain any measures established by the Board of Directors to prevent the individual and consolidated financial statements prepared by the Board from being submitted to the General Shareholders' Meeting with a qualified audit opinion.

The Audit Committee's duties include analysing any incidents, and ensuring that the financial statements present fairly the Company and its subsidiaries (consolidated). The Chairman of the Audit Committee reports all resolutions and decisions to the Board of Directors, which is the ultimate decision-making body. Throughout the year, the Audit Committee and the Director of Internal Audit hold regular meetings with the auditors to assist them in acquiring a better understanding. In 2019, the Management Control Department and the Project Risk Control Department were set up and began operating. The latter reports to the Audit, Risk and Compliance Committee. In addition, the company has undertaken initiatives to improve ICFR.

C.1.29 Is the secretary of the Board also a director?

[ ] Yes
[√] No

If the secretary is not a director, please complete the following table:

Name of Secretary	Representative
SECUNDINO FELGUEROSO FUENTES	

C.1.30 State, if any, the concrete measures established by the entity to ensure the independence of its external auditors, financial analysts, investment banks, and rating agencies, including how legal provisions have been implemented in practice.

The Audit Committee requests written confirmation each year from the auditors of their independence as regards the entity or directly or indirectly related entities, and information on additional services of any kind provided to these entities by the aforesaid auditors, as provided for in Audit Act 22/2015, of 20 July. To exercise better control over auditor independence, any engagement, other than the statutory audit, requested of the auditors requires approval by the Audit Committee.

C.1.31 State whether the company changed its external auditor during the year. If so, please identify the incoming and outgoing auditor:

[ ] Yes
[√] No

If there were any disagreements with the outgoing auditor, please provide an explanation:

[ ] Yes
[√] No

C.1.32 State whether the audit firm provides any non-audit services to the company and/or its Group and, if so, the fees paid and the corresponding percentage of total fees invoiced to the company and/or Group:

[√] Yes
[ ] No

	Company	Group companies	Total
Amount invoiced for non-audit services (thousand euros)	198	0	198
Amount invoiced for non-audit services/Amount for audit work (in %)	29.77	0.00	29.77

C.1.33 State whether the auditors' report on the financial statements for the preceding year contains a qualified opinion or reservations. If so, please explain the reasons given by the chairman of the audit committee to explain the content and extent of the aforementioned qualified opinion or reservations.

[ ] Yes
[√] No

C.1.34 State the number of consecutive years the current audit firm has been auditing the financial statements of the company and/or group. Furthermore, state the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:

	Separate	Consolidated
Number of consecutive years	4	4

	Separate	Consolidated
Number of years audited by the current audit firm/Number of years that the company or its group has been audited (in %)	12.90	12.90

C.1.35 State whether there is a procedure whereby directors have the information necessary to prepare the meetings of the governing bodies with sufficient time and provide details if applicable:

[√] Yes
[ ] No

Explanation of procedure

During its last meeting of the year, the Board of Directors approves a meeting schedule for the following year and establishes the monthly meeting dates.

Before each monthly Board meeting, and at least four days in advance, each director is provided with financial information on the Company, including the parent company and all subsidiaries (consolidated) as at the end of the immediately preceding month, together with detailed information regarding each agenda item and the proposals to be submitted under each. The monthly information includes at least the following: The consolidated and separate income statements, with comparative data for the year before and the budget; contracting data and a comparison with the budget; cash report and projections, with a detail of net cash; information regarding the number of employees, changes, distribution by area, etc.; events and incidents that may have an impact on the results of the Company and the Group, and a report on any other matters related to agenda items for which a decision must be taken.

C.1.36 State whether the company has established rules whereby directors must provide information regarding and, if applicable, resign, in circumstances that may damage the company's standing and reputation. If so, provide details:

[√] Yes
[ ] No

Explain the rules

Directors must tender their resignations in the circumstances provided for by law. They must also offer to resign, and, as the case may be, formalise such resignation, when circumstances arise that could harm the Company's name and reputation, in particular when directors are investigated for any crime, they must resign if the Board, after a report from the Nomination and Remuneration Committee, deems it appropriate. Similarly, if, once the investigation has been completed, an oral trial is ordered to commence, the Director must again place his or her position at the disposal of the Board and resign if the Board, following a report by the Nomination and Remuneration Committee, deems it appropriate.

C.1.37 State whether any member of the Board of Directors has notified the company that he or she has been tried or notified that legal proceedings have been filed against him or her, for any offences described in Article 213 of the LSC:

[ ] Yes
[√] No

C.1.38 Detail any material agreements entered into by the company that come into force, are modified or are terminated in the event of a change in control of the company following a public takeover bid, and their effects.

Not applicable.

C.1.39 Identify individually for a director, and generally in other cases, and provide detail of any agreements made between the company and its directors, executives or employees containing indemnity or golden parachute clauses in the event of resignation or dismissal or termination of employment without cause following a takeover bid or any other type of transaction.

Number of beneficiaries	4
Type of beneficiary	Description of agreement
Chief Executive Officer and Senior Management	The agreement with the Chief Executive Officer contains an indemnity clause in the event of unilateral termination without cause of the Contract for an amount of one year's fixed salary. The indemnities under the Senior Management Contracts are as follows: (i) One year's gross annual salary in case of termination before completion of five years of employment. (ii) Additional guarantee in the event of contract termination in respect of pending salaries up until 31 December 2020. (iii) Additional guarantee in the event of contract termination in respect of pending salaries up until the end of the first year of the contract (10 September 2020).

State if, beyond statutory requirements, these contracts have been communicated to and/or approved by management bodies of the company or of the Group. If they have, specify the procedures, events and nature of the bodies responsible for their approval or for communicating this: Board of Directors

	Board of Directors	General Meeting
Body authorising the severance clauses	√	

	Yes	No
Are these clauses notified to the General Shareholders' Meeting?		√

C.2. Committees of the Board of Directors

C.2.1 Provide details of all committees of the Board of Directors, their membership, and the proportion of executive, proprietary, independent and other external directors that comprise them:

Audit, Risk and Compliance Committee		
Name	Position	Category
RICARDO DE GUINDOS LATORRE	CHAIRMAN	Independent
IGNACIO SORIA VIDAL	MEMBER	Independent
JOSÉ JULIÁN MASSA GUTIÉRREZ DEL ÁLAMO	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% other external directors	0.00

In 2019, due to the resignations in September of four directors, three of whom comprised the entirety of the Audit Committee (Ms Elorza, Mr Legarda and Mr Sucunza), new members were appointed, as listed above.

Marta Elorza Trueba was Chair of the Audit Committee until 17 September 2019, when she resigned. On 30 September 2019, the Board of Directors resolved to appoint the independent director Ricardo de Guindos Latorre as member and Chairman of the Audit Committee based on his proven professional experience in auditing and accounting matters.

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

The Audit Committee is regulated by the provisions of the Ley de Sociedades de Capital (Corporate Enterprises Act), the Internal Regulations of the Board of Directors and the Regulations of the Audit Committee, the latest amendment of which was approved by the Board of Directors on 21 June 2019.

On 21 June 2019, the Board of Directors agreed to amend the Regulations of the Board of Directors and to approve a separate set of regulations for both the Nomination and Remuneration Committee and the Audit Committee, the latter to be renamed the Audit, Risk and Compliance Committee. This decision was based on a report issued by the Nomination and Remuneration Committee and followed the CNMV's practical guidance for Audit Committees and Nomination and Remuneration Committees.

Its members, particularly the Chairman, are appointed with regard to their knowledge and experience in accounting, auditing, or risk management matters.

The members of the Audit Committee resign voluntarily if not re-elected to the position of director or when so decided by the Board of Directors. In accordance with the Internal Regulations of the Board of Directors, the Chairman of the Audit Committee shall be appointed by the Board of Directors from among independent Directors. The Chairman must be replaced every four (4) years and may be re-elected after one (1) year has elapsed since removal.

The Audit Committee meets whenever called by the Chairman or requested by two of its members and, in any event, at least four times per year, within fifteen days following the end of each calendar quarter. One of the meetings is called to debate all matters that must be submitted to the Annual General Meeting, regarding both the appointment of the external auditor and the evaluation of the information that the Board of Directors must approve and include in its annual public documentation, including the Audit Report.

Continued in section H.

Identify the directors who are member of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairperson of this committee was appointed.

Name of directors with experience	RICARDO DE GUINDOS LATORRE
Date of appointment of the Chairman	30/09/2019

Nomination and Remuneration Committee		
Name	Position	Category
IGNACIO SORIA VIDAL	CHAIRMAN	Independent
RICARDO DE GUINDOS LATORRE	MEMBER	Independent
ROSA ISABEL AZA CONEJO	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% other external directors	0.00

Until 30 September 2019 the Committee comprised Juan Migue! Sucunza Nicasio, Chairman, and by Alejandro Legarda Zaragüeta and Ignacio Soria Vidal, members, all of whom were independent directors. After the resignation in September 2019 of Mr Legarda and Mr Sucunza, new members were appointed among the independent directors. The Commitee was then formed by Ignacio Soria Vidal, Chairman, and Rosa Isabel Aza Conejo and Ricardo de Guindos Latorre.

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

The Nomination and Remuneration Committee ("the Committee") is regulated by the provisions of the Corporate Enterprises Act, the Bylaws and the Internal Regulations of the Board of Directors, the latest amendment of which was approved by the Board of Directors on 21 June 2019, and by the Committee's own Regulations.

The Nomination and Remuneration Committee does not have executive duties, but has authority to inform, advise and make proposals within its area of competency. It is formed by a minimum of three (3) and a maximum of five (5) non-executive directors, with a majority of independent directors.

Currently, the Committee comprises three members, based on a report issued by the Nomination and Remuneration Committee, to adapt the number of members of the Committee to the current size of the Board of Directors. All Committee members are independent directors.

Continued in section H.

C.2.2 Complete the following table with information regarding the number of female directors who were members of Board committees at the close of the past four years:

	Number of female directors							
	Year 2019		Year 2018		Year 2017		Year 2016	
	Number	%	Number	%	Number	%	Number	%
Audit Committee	0	0.00	1	33.30	1	25.00	0	0.00
Nomination and Remuneration Committee	1	33.33	0	0.00	1	33.33	0	0.00

Until 30 September 2019, there was a woman director sitting on the Audit Committee. There were no women directors on the Nomination and Remuneration Committee in 2019.

C.2.3 State, where applicable, the existence of any regulations governing Board committees, where these regulations may be found, and any amendments made to them during the year. Also state whether any annual reports on the activities of each committee have been voluntarily prepared.

Board Committees are regulated by the Bylaws, the Regulations of the Board of Directors, and the Regulations of each Committee. The rules are available on the Company's website in the Corporate Governance section under the Investors Area. The most relevant duties and actions falling to both committees are also set out in detail in Section H, Appendix I.

Reports on the membership and functioning of each committee were produced in 2019.

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1. Describe, if applicable, the procedure for approval of related-party and intragroup transactions.

The procedure to be followed for transactions with related parties is provided for in the Regulations of the Board of Directors.

D.2. List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Name of significant shareholder	Name of group company	Nature of the relationship	Type of transaction	Amount (thousand euros)
No data				N/A

D.3. List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors:

Name or corporate name of manager of director	Name of related party	Relationship	Type of transaction	Amount (thousand euros)
No data				N/A

D.4. List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any event, note any intragroup transaction conducted with entities established in countries or territories which are considered tax havens:

Name of entity within the group	Brief description of the transaction	Amount (thousand euros)
No data		N/A

D.5. State the amount of any transactions conducted with other related parties that have not been reported in the previous sections.

Company name of the related party	Brief description of the transaction	Amount (thousand euros)
No data		N/A

D.6. Explain the mechanisms established to detect and resolve potential conflicts of interest between the company and/or its group and its directors, managers or significant shareholders.

The Board Regulations establish the mechanisms and procedures in the event of a conflict of interest between the Company, its directors, the natural person representatives of legal person directors, significant shareholders, and managers.

These mechanisms require the aforementioned persons to inform the Board of Directors, via various means, of their interest in competing companies or those with similar corporate purposes, and in the event of a conflict of interest, the affected person may not participate in the Company’s decisions regarding any matters involving the conflict of interest.

Moreover, the Internal Rules of Conduct in Securities Markets and the treatment of confidential and/or privileged information set out the circumstances in which there is a conflict of interest involving employees and managers and determines the procedures to avoid conflicts of interest and a mechanism from resolving conflicts, delegating this power in the Nomination and Remuneration Committee. There is also a principle of abstention by the director, employee or manager in the process for resolving conflicts of interest.

D.7. Is more than one group company listed in Spain?

[ ] Yes
[√] No

E. RISK MANAGEMENT AND CONTROL SYSTEMS

E.1. Explain the scope of the company's Risk Management and Control System, including tax compliance risk.

On 1 January 2019, the Board approved the updated version of the "Risk Control and Management Policy" in which the basic principles and guidelines are established for the control and management of all risks, including tax risks, faced by the Company, based on the identification of the main business risks and taking forward the most suitable internal control and management systems.

As a pillar of the Integral Risk Management System, Duro Felguera has adopted a Risk Control and Management Policy whose objective is to specify the principles for identifying, analysing, evaluating, managing and communicating the risks involved in the strategy and operations of Duro Felguera, thus ensuring a general framework for managing the threats and uncertainties inherent in the business processes and the environment in which the Group operates.

The objectives pursued by the company's Risk Management System are:

- To contribute to the achievement of the Company's strategic objectives.
- To put in place maximum safeguards for the protection of the company's interests and, therefore, the interests of all shareholders and other stakeholders.
- To protect Duro Felguera's reputation.
- To safeguard the business stability and financial soundness of Duro Felguera, sustainably over time.
- To support regulatory compliance.
- To help ensure that operations are conducted to the committed standards of safety and quality.

Therefore, the core principles underpinning risk control and management at DF are:

- To promote a risk management-oriented approach in the framing of strategy and risk appetite, through to incorporation of risk variables in operational decisions.
- To separate and assign responsibilities to the risk-taking areas and areas responsible for risk analysis, control and supervision, and seek to ensure use of the most effective instruments for risk mitigation.
- To report transparently on the Group's risks and operation of the control systems, through approved communication channels.
- To ensure compliance with corporate governance rules and standards and their updates in accordance with the best international practices, acting at all times in accordance with the Company's corporate governance rules.

The scope of application of the Risk Management System embraces all companies, departments, projects and areas of the Duro Felguera Group.

E.2. Identify the bodies within the company responsible for creating and executing the Risk Management and Control System, including tax compliance risk:

The functions and responsibilities of the company's various bodies relating to the Risk Management System are as follows:

Board of Directors
Article 5 "Powers of the Board" of the Regulations of the Board of Directors specifies the non-delegable functions of the Board, including the determination of risk identification, control and management policies, including for tax risks, and the supervision of reporting and control systems.
The "Risk Control and Management Policy" describes the functions of the Board of Directors of DF in this regard, including its responsibility for defining, updating and approving the Risk Control and Management Policy and setting the levels of acceptable risk and risk tolerance at the given time.

Audit Committee
The functions related to the supervision of the internal control and risk management systems, aimed at ensuring that the main risks are identified, managed and maintained at the approved levels, have been delegated to the Audit Committee.

Management Committee
The Management Committee must promote the identification and assessment of risks at all levels of the Company, assign responsibilities for the risks identified, ratify the results of risk assessments in order to determine their criticality and approve actions or responses to risk proposed and executed by the officer for each risk.

Risks Department
The Risks Department was reinforced in December 2018, and it now reports directly to the Audit Committee since January 2019, supporting the Board of Directors and the Management Committee in the fulfilment of their functions, by performing its duties:

- To ensure the proper functioning of the risk management system by providing methodological support to risk officers for risk identification and assessment.
- To standardise and consolidate the reports on risk identification and assessment drawn up by each of the risk officers, in order to submit a regular status report to the Management Committee and the Audit Committee.
- To monitor risk management outcomes through the risk indicators reported by the Management Control area and monitoring of the fulfilment and effectiveness of the action plans executed by risk officers.

Risk Officers
At Duro Felguera, risk management is the responsibility of each business area head, who may delegate to one or more people, depending on the nature and importance of the risk.
As risk officers they must:

- Identify and assess in depth the risks under their area of responsibility
- Propose and report the necessary information for monitoring risks
- Propose and implement action plans for risk mitigation
- Report on the effectiveness of such plans

Internal Audit Department
The Internal Audit Department is responsible for verifying that appropriate systems and processes have been implemented to ensure awareness of the risks faced by the Group and of the regulations applicable to the organisation. The Department therefore conducts a continuous audit of the Risk Management System, which must be provided for in the Annual Audit Plan, scrutinising the operation of the System in terms of its design, implementation and effectiveness.

E.3. State the primary risks, including tax compliance risks, and those deriving from corruption (with the scope of these risks as set out in Royal Decree Law 18/2017), to the extent that these are significant, which may affect the achievement of business objectives:

The Company is subject to a range of risks, inherent in the different lines of business in which it operates, and grouped into 4 categories which are updated regularly (at least annually) or whenever significant events occur that affect the company's activities or the environment and, therefore, may affect assessment of the company's risks.

These categories are as follows:

- Strategic: risks associated with key long-term objectives. They may arise from the actions of other key market participants (customers, competitors, regulators, investors or others), from changes in the competitive environment or from the business model itself. The main risks within this category are those related to the market and the company's project book.
- Operational: risks associated with the normal operations carried out at Duro Felguera, including all risks related to operating procedures and the efficient and effective use of the organisation's resources. In this category, the key risks are those relating to execution and management of the main contracts and to project planning.
- Financial: risks related to the economic-financial management of Duro Felguera and the preparation of financial information. The main risks in this category are those relating to liquidity and exchange rates.
- Compliance: risks of non-compliance with external and internal regulations by the Company's management or employees and, specifically, those relating to compliance with tax requirements and criminal statutes.

E.4. State whether the entity has a risk tolerance level, including tolerance for tax compliance risk.

The Company evaluates its risks on the basis of the following variables:

- Impact, defined as the consequences and effects that the risk would have on the Group if it materialised.
- Probability that the risk will materialise.

For risks with a higher impact and residual probability, the directors set risk tolerance according to the most representative risk indicators. Since December 2018, following the approval of the new Risk Control and Management Policy, the Company has been working on improving the indicators of the key risks, so that the level of risk tolerance and measurement can be more objective.

Likewise, in some cases, the tolerance level set is "zero", as in the case of the main compliance risks, for which the Company has implemented a plan to strengthen the compliance system.

E.5. State which risks, including tax compliance risks, have materialised during the year.

As explained in the consolidated financial statements, the main risks that materialised in 2019 related to financing capacity, obtaining bank guarantees, and deviations in the performance of certain contracts.

E.6. Explain the response and monitoring plans for all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the board of directors responds to any new challenges that arise.

In response to the main risks, various actions have been taken that are mitigating the impact of the materialised risks and that help monitor risks that are considered to have the greatest impact and probability.
These actions are as follows:

- In 2019, we cemented the changes begun in 2018 in the organisational structure, including the appointment of a Chief Executive Officer, the creation of new divisions and the assignment of responsibilities in order to have a streamlined and nimble organisation.
- The liquidity monitoring procedure has been strengthened to improve financial management.
- We created a Management Control Department to reinforce monitor project progress and controls over financial and management reporting.

F. INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms comprising the System of Internal Control over Financial Reporting (ICFR) of your company.

F.1. Control environment

Report on at least the following, describing their principal features:

F.1.1 The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The Duro Felguera (DF) Group's System of Internal Control over Financial Reporting comprises a set of controls designed to provide reasonable assurance regarding the reliability of financial information that is publicly reported in compliance with the transparency requirements of today's securities markets.
The Economic-Financial Division of DF is responsible for establishing the design, implementation and overall monitoring of the Group's system of internal control over financial reporting.
The Division must therefore establish the system and have the necessary structure for oversight to ensure that it functions effectively.
The ICFR model implemented at DF establishes a range of functions and responsibilities whereby the Audit Committee, in its role of supervising the preparation and reporting of regulated financial information and the effectiveness of the company's internal control, as described in the Regulations of the Board of Directors (Article 17), is responsible for seeing to:

- Suitable delimitation of the scope of consolidation.
- Correct application of accounting principles.
- Effective implementation of control policies and procedures.
- The process of preparation and the integrity of the financial information, checking that ICFR is properly designed and operationally effective, and that regulatory requirements are complied with.
- Discussion with the auditors on the significant weaknesses of the internal control system uncovered during the audit, without compromising the auditor's independence, and leading to conclusions on the soundness and reliability of the system.

Finally, the Internal Audit area, which reports to and is under the oversight of the Audit Committee, will plan the supervision and assessment of the ICFR with a suitable scope and schedule in order to arrive at findings on its effectiveness, and that audit engagement will form part of its Annual Audit Plan.

F.1.2. State whether the following are present, especially if they relate to the creation of financial information:

- Departments and/or mechanisms in charge of: (i) design and review of corporate structure; (ii) clear definition of lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication throughout the entity.

Under the Regulations of the Board of Directors, the specification of the Group's organisational structure and any changes to it are the responsibility of the Board.

In 2019, we created the Organisation and Processes Department, which reports to the Media and Talent Management Department. The new unit is tasked with designing an organisational structure aligned with strategic plans, specifying the functions and duties of each key position in the Group and shaping workflows and relations among the functional areas to optimise coordination and resource allocation to achieve the Company's goals.

The Department's responsibilities are to:

- Specify standard organisational structures that support optimal coordination of resources and activities.
- Specify the functions and duties of each position within the organisation to adapt them to the organisational model.
- Advise the Department heads on the implementation of the organisational models adopted by the Group.
- Create and implement a normative body of policies, standards, process maps and workflows in line with the requirements of the Group and its governing bodies.
- Create a global knowledge management model that enables the dynamic flow of information throughout the organisation.

- Draw a map of competencies and create a model of relations between positions within corporate structures, and of these among themselves.
- Implement and define the strategic resource planning model with each area.
- Ensure that best practices and experiences are shared and transferred to the entire Group in coordination with the training department.
- Develop and dynamically update the Group's organisational manual in relation to structures, positions, functions, dependency relationships and a matrix of responsibilities, ensuring dissemination throughout the company.
- Review and centralise the classification and registration of new positions and/or organisational areas in DF.
- Create and manage the DF Group's organisational manual and its contents (organisation charts, organisational manual, responsibility matrix, organisational dashboard).

In short, the Economic-Financial Division leads the preparation of financial reporting, although, as stipulated in DF's model for ICFR, all parties involved must work towards the transparency, integrity, accuracy and reliability of financial reporting. As to ICFR, responsibilities are ascribed by the internally developed ICFR governance model approved by the Board. A specific area was created for its implementation \ management that reports hierarchically and functionally to the Economic-Financial Division itself.

Code of conduct, the body approving this, degree of dissemination and instruction, including principles and values, (state if there is specific mention of transaction recording and creation of financial information), a body charged with analysing breaches and proposing corrective actions and sanctions.

Compliance Policy

In 2019, the Board of Directors approved the Compliance Policy. Its priorities include the development of a robust compliance culture in which the ethical values of the Company are at the core of its business and its decision-making.

The goal is to express, through the will of Duro Felguera, its Board of Directors and Senior Management, facing third parties with whom the Company enters into commercial relations, the underpinnings of the Duro Felguera Crime Prevention Model and its commitment to establish a compliance culture that fosters diligent professional conduct. We also firmly condemn any form of improper action: no unlawful conduct may be excused on the basis of some benefit for the organisation.

Crime Prevention Manual

Also in 2019, at the proposal of the Audit, Risk and Compliance Committee the Board of Directors approved the Crime Prevention Manual, which establishes the organisational model for the prevention, management and control of criminal risks at Duro Felguera and its subsidiaries. The Manual sets down the guidelines for action at Duro Felguera to exert proper control and vigilance over its business activity, thus complying with the requirements of the Spanish Criminal Code and corporate law, particularly with regard to crime risk prevention.

The goal is to set rules of action and conduct and create controls to prevent criminal offences that may affect Duro Felguera's business. The Manual comprises various elements that enable detailed analysis of the crime risks that could materialise in its divisions, departments and business areas, and compiles existing procedures and controls for effective prevention and mitigation of such risks. General controls are the basis of risk control and mitigate the generic risk of crimes considered to be of special significance. Such controls apply to all employees, managers and directors of the Company. Specific controls are specific measures whose purpose is to mitigate a specific criminal risk or a group of specific criminal risks. These two tiers mean the Criminal Risk Prevention Model is a structured and organic system of effective prevention and control that reduces crime risk at Duro Felguera.

The oversight, monitoring and dissemination of the Manual is the responsibility of the Compliance Committee, which is appointed by the Board of Directors and comprises representatives of the Media and Talent Management, Finance, Legal Affairs, and Compliance departments.

Finally, this oversight system is verified by Internal Audit, which checks whether existing controls are adequate and effective by determining whether or not the defined control environment reasonably mitigates the identified criminal risks. Internal Audit then reports to the Audit, Risk and Compliance Committee so that identified weaknesses can be remedied accordingly.

Due Diligence of third parties

Duro Felguera reinforced its Due Diligence procedures with the approval in 2019 by the Board of Directors, at the proposal of the Audit, Risk and Compliance Committee, of the Third Party Due Diligence standard, which describes the due diligence procedure to be followed before signing agreements with third parties. In the course of Duro Felguera's business, agreements with third parties are an essential asset in achieving the Company's corporate purpose. Consequently, a process of analysis and study is required prior to the commencement of professional or commercial relations, minimising any transfer of liability to the Group as a result of technical, financial or compliance risks.

Code of Conduct
The company's Code of Conduct approved by the Board of Directors in 2018 remained in force throughout 2019.

The company's Code of Conduct is published on the intranet and on the corporate website, and sets out the following principles and values:
- Compliance with the law:
DF and all its employees undertake to comply with the legislation in force in all activities, and with the Good Corporate Governance practices adhered to by DF, while encouraging cooperation with authorities and regulatory bodies.
- Respect for people: This aspect focuses on respect for fundamental rights and civil liberties (work-life balance, equal opportunities and non-discrimination, among others) and health and safety.
- Relations with government authorities and third parties:
DF will not tolerate any action or behaviour that is contrary to the principles of transparency, integrity and equal opportunities in our relations with third parties.
- Commitment to the market:
DF and all its employees must guide their conduct by the highest standards of quality, honesty and transparency.
- Prevention of contraband:
DF is committed to abide by prevailing legislation on import and export.
- Commitment to the environment: DF is committed to promoting and encouraging the protection and conservation of the environment by involving its employees and the Group as a whole in environmental concerns through continuous improvement.
- Protection of information: personnel subject to the Code of Conduct are required to keep strict confidentiality in relation to information obtained in the course of their work.
- Financial and accounting transparency: The Company shall ensure the reliability and rigour of financial information that, in accordance with applicable regulations, is publicly reported to the market. Specifically, the accounting policies, control systems and supervision mechanisms specified by the Group will be applied so that relevant information is identified, prepared and communicated in a timely and appropriate manner. Furthermore, the Board of Directors of DF and the other management bodies of Group companies will regularly verify the effectiveness of the system of internal control over financial reporting to the markets.
- Responsible use of resources and assets: All DF employees are subject to the responsibility and commitment to protect the Group's assets against damage, loss, theft and misuse.
- Use of facilities: The company and its employees must maintain a decent, convenient and safe workplace.
- Protection of third-party intellectual and industrial property rights: Personnel subject to DF's Code of Conduct must at all times respect the intellectual and industrial property of third parties.

Finally, the Compliance Committee, comprising management representatives of the Human Resources, Legal Affairs and Economic-Financial departments, which together with the Compliance Department will be the internal body responsible for updating, supervising and controlling compliance with the principles, values, guidelines and patterns of behaviour set out in this Code, and existing regulations within the framework of the application of the Code of Conduct.

- Whistleblower channel, that allows notifications to the audit committee of irregularities of a financial and accounting nature, in addition to potential breaches of the code of conduct and unlawful activities undertaken in the organisation, reporting, as the case may be, if this is of a confidential nature.

DF has made available to its employees several channels to report incidents and concerns or raise questions:
- The whistleblower's manager, or the Head of Human Resources.
- Ethics Hotline (https://lineaeticadurofelguera.com): This is a channel managed by the Chief Compliance Officer of Duro Felguera under the supervision of the Audit Committee. Accounting or auditing irregularities or breaches of the Code of Conduct or the Group's Crime Prevention Model can be reported via the channel in a fully confidential and independent manner. This channel, accessible from the Duro Feiguera website and intranet, enables stakeholders safely and anonymously to report irregular, unethical or illegal conduct which they believe to have occurred in the course of the Company's business. Duro Felguera assures strict confidentiality in addressing incidents and throughout the process of investigation. Duro Felguera also guarantees that no action will be taken against the whistleblower for incidents reported in good faith.

- Regular training and updating programmes for employees involved in the preparation and review of financial information, and evaluation of ICFR, at least covering accounting standards, auditing, internal control and risk management:

In 2019, the Audit Committee and the Board of Directors promoted training in Risk Management, Compliance Policies and internal control over financial reporting, and training for Internal Audit staff to carry out internal control reviews. Training activities, which took place over practically the whole of 2019, were provided by external experts to employees involved in the preparation and review of financial reporting. Training sessions have been held to disseminate the ICFR system across relevant areas and personnel within the organisation, in person and online for off-site employees.

In general, Duro Felguera carries out training actions in the face of regulatory changes that affect the accounting treatment of the type of transactions entered into by DF. In addition, there is a Consolidation and Reporting department staffed by accountants operating as a special technical unit; for complex transactions, they seek the opinion of external experts. There is also a corporate accounting manual - published on the intranet - that provides for the uniform application of accounting policies and standards.

F.2. **Assessment of financial reporting risks**

Report on at least the following:

F.2.1. The main characteristics of the risk identification process, including error and fraud risk, as regards:

- Whether the process exists and is documented.

Duro Felguera has developed an action framework for implementing the system of Internal Control over Financial Reporting ("ICFR") which sets out the quantitative and qualitative criteria for delimiting the scope. In addition, DF has created a matrix of controls targeting potential risks in each accounting process. An enforcer and a supervisor, and the evidence required, are specified for each control. The entire process ends with a self-assessment, reported by supervisors to the Economic-Financial Division of the Group.

- If the process covers all of the objectives of financial information (existence and occurrence; completeness; valuation; delivery; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency.

The reliability of the information reported by DF to the markets requires the fulfilment of the following control objectives, according to their impact on the financial statements:

- Occurrence: The reported transactions and events have occurred and relate to the entity.
- Completeness: All the facts and transactions that had to be reported have indeed been reported.
- Accuracy: Amounts and other data relating to transactions and events have been properly reported.
- Transaction period: Transactions and events have been recorded in the correct period.
- Classification: Transactions and events have been recognised in the appropriate account entries.
- Existence: Reported assets, liabilities and equity are in existence.
- Rights and obligations: The entity owns or controls the rights to the assets, and the liabilities are obligations of the entity.
- Measurement: Assets, liabilities and equity are reported in the financial statements at the appropriate amounts and any resulting valuation adjustments or allocations have been properly accounted for.

The safeguarding of assets and the prevention and detection of fraud are considered objectives of ICFR because of their impact on the above objectives.

These objectives will be regularly reviewed so that, by comparing the real situation with this theoretical framework, any areas for improvement can be identified.

- The existence of a process for identifying the scope of consolidation, taking into account, among other factors, the possible existence of complex company structures, shell companies, or special purpose entities.

Delimitation of the scope of consolidation of the Duro Felguera Group requires continuous communication between the Legal and Economic-Financial areas, more specifically the Consolidation area, so that the company has an updated view of its financial position and all the separate financial statements of the companies within the scope are properly identified and integrated with the consolidated financial statements.

- If the process takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.

The DF Group's risk control model described in section E.1. Takes account of the assessment of the effects of other types of risk inherent in its business to the extent that they affect financial reporting. This means carrying out suitable assessment and control of corporate-level risks and risks that are specific to the company's activity and operations.
In particular, as described in section E.3, the DF Group has defined 4 main risk categories: strategic, operational, financial and compliance.

- The governing body within the company that supervises the process.

Article 17 of the Board Regulations tasks the Audit Committee, among other things, with supervising the effectiveness of the Company's internal control, the internal audit and risk management systems, as well as addition to discussing with the auditors significant weaknesses of the internal control system uncovered during the audit, without jeopardising the auditor's independence.

F.3. Control activities

Report on whether the company has at least the following, describing their main characteristics:

F.3.1. Review and authorisation procedures for financial information published by the stock markets and a description of the ICFR, indicating those responsible, as well as documentation describing the flow of activity and controls (including those relating to the risk of fraud) of the various types of transactions which may materially affect the financial statements, including financial closing procedures and the specific review of judgements, estimates, valuations and relevant forecasts.

The Management Committee, through the Finance Division, is responsible for implementing and overseeing financial reporting.

As to review and authorisation of financial reporting, under Article 5 of the Board Regulations, the Board has the power to "approve the financial information that, due to its status as a listed company, the Company must periodically make public, ensuring that such reporting gives a true and fair view of the equity, financial position and results of the Company, in accordance with the provisions of the law." Similarly, one of the functions of the Audit Committee is "To supervise the process of preparing and reporting the mandatory financial information on the Company and, where appropriate, the Group, and to submit recommendations or proposals to the Board of Directors to ensure completeness of the information, review compliance with regulatory requirements, and ensure the appropriate delimitation of the scope of consolidation and the correct application of accounting principles."

Supervision and authorisation of financial reporting is assisted by a team of external auditors, who also review the information published at year-end, with an earlier six-monthly limited review. In contrast, 2019, the condensed consolidated interim financial statements as at 30 June 2019 underwent a full audit.

The IFCR of each of the processes and sub-processes involved in financial reporting were designed to comply with the control objectives set out at point F.2.1. For the purposes of financial reporting, the most critical processes within the DF Group's activities are listed below:

- Accounts receivable
- Accounts payable
- Fixed assets
- Accounting close
- Consolidation and reporting
- Intragroup and related-party transactions
- Taxes
- Treasury and financing
- Human resources

- Revenue and production
- Purchases

The documentation of the system of internal control over financial reporting for these processes was bolstered in 2019 to include high-level descriptions of financial reporting processes, and improved specifications of their related controls and evidence requirements. The existing system is a continuous process that involves systematic updating over time.

F.3.2. Internal IT control policies and procedures (access security, change controls, their operation, operational continuity, and segregation of duties, among others) which support relevant processes within the company and relate to the creation and publication of financial information.

As a rule, Duro Felguera, within the framework of its ICFR system, has implemented controls of IT systems for processes and sub-processes via separation of functions, assigning different profiles to the different roles of the Group's employees.

In addition, Duro Felguera bases most of its activities on its IT systems. For this reason, in 2019 DF updated its internal control policies for information systems, adapting them to the COBiT environment (Control Objectives for Information and related Technology) in five main areas:

- Security
- Segregation of roles
- Organisation and management of the Information Technologies area
- Operation and use
- Change management

F.3.3. Internal control policies and procedures intended to guide the management of subcontracted activities and those of third parties, as well as those aspects of assessment, calculation or evaluation entrusted to independent experts, which may materially affect financial statements.

As a result of the Company's internationalisation, part of the financial reporting preparation and regulatory compliance is performed in foreign locations. To better ensure compliance with local (accounting, tax, legal, etc.) legislation in each country and, therefore, reduce exposure to compliance risk, Duro Felguera has a cooperation agreement with an internationally renowned accounting and audit firm for the preparation of financial information in foreign locations. Accordingly, compliance is up to professionals with proven knowledge of local requirements who belong to an internationally recognised firm. Nevertheless, this firm operates under the close supervision and control of Duro Felguera professionals, who verify the supporting documentation of the transactions underlying the financial statements. Duro Felguera has internal procedures in place to review the financial information prepared by the external firm, as set out in "Procedure for Review of Subcontracted Activities".

F.4. **Information and communication**

State whether the company has at least the following, describing their main characteristics:

F.4.1. A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining a free flow of information to those responsible for operations in the organisation, as well as an up-to-date accounting policy manual distributed to the business units through which the company operates.

The Economic-Financial Division is responsible for keeping the accounting policies affecting the Duro Felguera group up to date and communicating them appropriately. In 2019 work done to revise and update the DF Accounting Policies Manual to bring it into alignment with International Financial Reporting Standards (IFRS). The updated version of the Manual is published on the corporate intranet and is readily accessible to all Group employees involved in financial reporting.

F.4.2. Measures for capturing and preparing financial information with consistent formats for application and use by all of the units of the entity or the group, and which contain the main financial statements and notes, as well as detailed information regarding ICFR.

The process of consolidation and preparation of financial information is centralised at the Corporate Administration and Reporting Division. The process starts from receipt of the financial information required for accounting harmonisation and meeting specified reporting requirements. The data is entered on a computer tool that aids the consolidation process.

The Administration and Reporting Division also centrally establishes closing and reporting timetables and distributes them to all parties involved in the preparation of accounting and financial information.

F.5. Supervision of system performance

Describe at least the following:

F.5.1. The activities of the audit committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the year and the procedure through which the person responsible prepares the assessment reports on its results, whether the company has an action plan describing possible corrective measures, and whether its impact on financial reporting is considered.

As indicated in the Board Regulations and in the General Policy on ICFR, it falls to the Audit Committee to see to the effectiveness of the Duro Felguera Group’s internal control, internal audit and risk management systems. The Audit Committee's activities, both oversight regarding ICFR and the other areas of its remit, are recorded in the minutes of its meetings.

During 2019, led by the Audit Committee, the DF Group improved the documentation of its Internal Control over Financial Reporting (ICFR). Internal Audit is also involved in overseeing the design and implementation of ICFR, and specific actions to check the effectiveness of controls are set out in the 2019 and subsequent audit plans.

F.5.2. If there is a procedure by which the account auditor (in accordance with the contents of the Normas Técnicas de Auditoría (NTA) - “Auditing Standards”), internal auditor and other experts may communicate with senior management and the audit committee or senior managers of the company regarding significant weakness in internal control identified during the review of the annual accounts or any others they have been assigned. Additionally, state whether an action plan is available for correcting or mitigating any weaknesses found.

The Audit Committee held regularly scheduled meetings with the external auditor, with the required presence of the Administration and Reporting, Economic-Financial and Internal Audit Divisions whenever thought necessary, especially for the reviews of the half-year and full-year financial statements.

F.6. Other relevant information

N/A

F.7. **External auditor´s report**

Report on:

F.7.1. If the ICFR information submitted to the markets has been subject to review by the external auditor, in which case the entity shall include its report as an attachment. If not, reasons why should be given.

In 2019, the Audit Committee of Duro Felguera decided to submit the information contained in this section of the Annual Corporate Governance Report for review by the external auditor. As a result, the external auditor produced the attached report on internal control over financial reporting (ICFR) for the year ended 31 December 2019.

G. EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Specify the company's level of compliance with recommendations from the Unified Code of Good Governance.

In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company´s actions. General explanations are not acceptable.

1. That the Articles of Association of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

   Complies [X]   Explanation [ ]

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

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

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

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

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

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

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

   Complies [X]   Complies partially [ ]   Explanation [ ]

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

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

   Complies [X]   Complies partially [ ]   Explanation [ ]

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

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

   Complies [X]   Complies partially [   ]   Explanation [   ]

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

   a) Report on auditor independence.

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

   c) Audit Committee report on third-party transactions.

   d) Report on corporate social responsibility policy.

   Complies [X]   Complies partially [   ]   Explanation [   ]

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

   Complies [   ]   Explanation [X]

At the last General Meeting of shareholders, the attendance rate came to 34% of share capital. The Board of Directors does not believe that a webcast of the General Meeting would have a direct impact on increasing shareholder participation.

8. The Audit Committee should strive to ensure that the Board of Directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

   Complies [X]   Complies partially [   ]   Explanation [   ]

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

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

   Complies [X]   Complies partially [   ]   Explanation [   ]

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

a) Immediately distributes the additions and new proposals.

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

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

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

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

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

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

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

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

Complies [X] Complies partially [ ] Explanation [ ]

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

Complies [X] Complies partially [ ]

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

a) Is concrete and verifiable.

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

c) Favours diversity in knowledge, experience and gender.

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

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

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

Complies [ ] Complies partially [X] Explanation [ ]

There are no selection procedures that are a barrier or could be a barrier to the selection of women directors. When seeking a certain professional profile, the Company takes into consideration the professional profile and only evaluates the profile that is most adequate to the corporate interests, without taking into account the gender of the candidate. However, when faced with two objectively similar professional profiles, the candidate of the least represented gender will be selected, in accordance with the provisions of the Company's Director Selection Policy and in compliance with the target that 30% of Directors should be women by 2020.

In the light of these developments and the outlook for the presence of women on the Board of the Company, we believe compliance with the Director Selection Policy has been achieved, and we expect that, if this trend continues, the 30% objective could be achieved by 2020.

In September 2019, two independent women directors (25% of the total number of members of the Board) tendered their resignations. One female and one male director were appointed by co-option. As at the date of this report there is an unfilled vacancy. As indicated earlier, a further vacancy for an independent director will arise on 1 April 2020.

The Nomination and Remuneration Committee is in the process of selecting new candidates. An active search for female candidates is a priority.

15. That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

Complies [X] Complies partially [ ] Explanation [ ]

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

This criterion may be relaxed:

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

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

Complies [X]   Explanation [ ]

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

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

Complies [X]   Explanation [ ]

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

a) Professional profile and biography.

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

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

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

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

Complies [X]   Complies partially [ ]   Explanation [ ]

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

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

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

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

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

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

Complies [X]   Explanation [ ]

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

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

Complies [X]   Complies partially [ ]   Explanation [ ]

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

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

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

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

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

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

See section C.1.2.

25. That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.

    And that the Board rules establish the maximum number of company Boards on which directors may sit.

    Complies [X]   Complies partially [ ]   Explanation [ ]

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

    Complies [X]   Complies partially [ ]   Explanation [ ]

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

    Complies [X]   Complies partially [ ]   Explanation [ ]

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

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

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

Complies [X]   Complies partially [ ]   Explanation [ ]

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

Complies [ ]   Explanation [X]   Not applicable [ ]

Directors are immediately informed of all new developments and changes in matters relating to auditing, accounting and legislation by the Company's internal technical services, which produce and deliver reports and are available to the Directors to clarify any doubts and provide further information as required.

31. That the agenda for meetings clearly states those matters about which the Board of Directors are to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.

When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall by duly recorded in the minutes.

Complies [X]   Complies partially [ ]   Explanation [ ]

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

Complies [X]   Complies partially [ ]   Explanation [ ]

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

Complies [X]   Complies partially [ ]   Explanation [ ]

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

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

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

Complies [X] Explanation [ ]

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

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

b) The workings and composition of its committees.

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

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

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

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

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

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

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

Complies [X] Complies partially [ ] Explanation [ ]

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

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

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

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

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

Complies [X] Complies partially [ ] Explanation [ ]

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

Complies [X] Complies partially [ ] Explanation [ ]

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

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

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

1. With regard to information systems and internal control:

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

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

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

2. With regard to the external auditor:

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

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

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

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

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

Complies [X]   Complies partially [   ]   Explanation [   ]

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

Complies [X]   Complies partially [   ]   Explanation [   ]

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

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

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

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

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

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

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

Complies [X]   Complies partially [ ]   Explanation [ ]

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

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

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

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

Complies [ ]   Complies partially [X]   Explanation [ ]

The Company understands that the Audit Committee must necessarily be independent. Therefore, it considers that any unit that reports functionally to the Committee should not be involved in its management, so it does not comply with the second part of b) above, as Internal Audit does not participate in risk management decisions.

47. That members of the appointment and remuneration committee -- or of the appointments committee and the remuneration committee if they are separate -- are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to carry out and that the majority of said members are independent directors.

Complies [X]   Complies partially [ ]   Explanation [ ]

48. That high market capitalisation companies have formed separate appointments and remuneration committees.

Complies [ ] Explanation [ ] Not applicable [X]

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

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

Complies [X] Complies partially [ ] Explanation [ ]

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

a) Propose basic conditions of employment for senior management.

b) Verify compliance with company remuneration policy.

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

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

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

Complies [X] Complies partially [ ] Explanation [ ]

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

Complies [X] Complies partially [ ] Explanation [ ]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Complies [X]   Complies partially [ ]   Explanation [ ]

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

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

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

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

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

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

f) Communication channels, participation and dialogue with stakeholders.

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

Complies [X] Complies partially [ ] Explanation [ ]

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

Complies [X] Complies partially [ ] Explanation [ ]

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

Complies [X] Explanation [ ]

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

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

Complies [ ] Complies partially [ ] Explanation [X]

Remuneration in the form of shares or share options is provided for in the Bylaws and in the Directors' Remuneration Policy approved by the shareholders at a General Meeting. However, it is not currently applied.

58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.

    And, in particular, that variable remuneration components:

    a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.

    b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.

    c) Are based upon balancing short-, medium- and long-term objectives, permitting the reward of continuous achievement over a period of time long enough to judge creation of sustainable value such that the benchmarks used for evaluation are not comprised of one-off, seldom occurring or extraordinary events.

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

59. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.

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

    Variable remuneration to Directors in their capacity as such, in line with the Bylaws, is capped at 2.5 % of net profit, once statutory payments have been covered and provided that the dividend on shares is not less than 4%.

    In view of the above, once the Company's shareholders approve the financial statements at a General Meeting and resolve to distribute a dividend in an amount equal to or greater than that established in the Remuneration Policy and the Bylaws, it is possible to verify compliance with the conditions immediately, since variable remuneration is based on the closed and audited financial statements, which is the one that is submitted at the General Meeting for deliberation.

60. That remuneration related to company results takes into account any reservations which may appear in the external auditor’s report which would diminish said results.

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

    As indicated in the response to recommendation 59 above, since the General Meeting is the corporate body that approves the financial statements that serve as the yardstick for determining whether or not variable remuneration to Directors is due, the shareholders at a General Meeting examine and consider the report of the external auditors, which would include any qualifications as to the financial statements and results.

61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.

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

This recommendation is not followed because although the Remuneration Policy provides for the possibility of delivering shares or financial instruments linked to the value of shares, there are no remuneration plans in force that involve payment by delivery of shares or financial instruments linked to their value.

62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.

The foregoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

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

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

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

This clause is not included because the targets that attract variable remuneration must be met in the financial year, i.e. in the short term, and are verifiable before payment.

64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.

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

H. FURTHER INFORMATION OF INTEREST

1. If there is any aspect regarding corporate governance in the company or other companies in the group that have not been included in other sections of this report, but which are necessary in order to obtain a more complete and comprehensible picture of the structure and governance practices in the company or group, describe them briefly below.

2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

   Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based, or other. In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July, 2010:

Yes. Due to a lack of space in other sections, following the principle of transparency that governs the Company's policies and our policy on relations with shareholders, the composition and members of the Board and Committees during 2019 are identified below.

Comments on section A.3.

As indicated in section A.3, at the General Meeting of 31 May 2019 the shareholders resolved to decrease share capital to offset losses and to group together all shares, raising par value per share but not total nominal capital, and exchange them for newly issued shares in the proportion of one new share for every fifty old shares (“reverse split”).

On 19 June 2019, the Board decided to execute the grouping of shares and exchange for newly issued shares in the proportion of one (1) new share for every fifty (50) old shares, increasing the par value of the shares from the one thousandth of a euro (€0.001) established after the share capital reduction, to five euro cents (€0.05), without modifying the share capital figure, thereby reducing the number of shares in circulation.

The effective date of the grouping was 1 July 2019.

Section C.1.33.

The financial statements for 2018 have not attracted any reservations or qualifications. However, one paragraph specifically addresses the issue of material uncertainty as to the “going concern” principle, as quoted below:

“We draw your attention to note 22 to the financial statements, which states that the Company has equity worth less than half the nominal value of its share capital. Therefore, at the next General Meeting, the Company's Directors will propose a reduction in share capital by the amount necessary to bring equity back into balance.

Additionally, as indicated in the note, updated cash flow projections show a need for additional financing. The Company and its Group are currently negotiating with financial institutions and clients to explore new financing channels that will enable the Group to have an adequate debt structure to meet its liquidity needs and payment obligation in the normal course of operations. These negotiations are at an early stage. The Directors of the Company have prepared the financial statements on a going concern basis, considering their favourable expectations for delivering on cash forecasts and actions to restore equity. The circumstances described above indicate material uncertainty as to the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.”

As indicated in section A.3, the Company carried out a capital reduction that rebalanced its equity.

Comments on section C.2 Board Committees

The Board decided to modify its own Regulations to further specify and technically improve certain points, especially after the entry into force of Royal Decree 18/2017 on inclusion in the consolidated financial statements and management report of the consolidated non-financial statement, and the publication of the Technical Guide on Nomination and Remuneration Committees.

The modification widened the scope of concern and functions of the Committees and reassigned certain duties among them.

Comments on section C.2.1.

AUDIT COMMITTEE

Continuation of the section relating to the functioning of the Committee and the key actions carried out during 2019:

Functions:

The main functions of the Committee are to:

a) Define the procedure for selecting the statutory auditor, including the relevant selection criteria, such as training, experience and independence.

b) Report to the General Meeting on any business that falls within the committee's remit and, in particular, regarding the outcome of the audit, explaining how this has contributed to the integrity of financial information and the role that the committee has played during this process.

c) Supervise the efficiency of the Company's internal controls, internal audit and risk management systems, while also discussing with the statutory auditor any significant weaknesses in the internal control system that may have been detected over the course of the audit, without compromising its independence. To this end, and where appropriate, recommendations or proposals may be submitted to the Board of Directors and the corresponding time frame for follow-up activities.

d) In particular, the Company shall have a risk control and management unit, under the supervision of this committee, to, *inter alia*, ensure that risk control and management systems are functioning correctly and, specifically, that major risks the Company is exposed to are correctly identified, managed and quantified; play an active supervisory role in the preparation of risk strategies and in key decisions about their management; and ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the Board of Directors.

e) Monitor the preparation and presentation of the required financial and non-financial information on the Company and, where appropriate, the Group, and submit recommendations or proposals to the Board of Directors with a view to safeguarding its integrity, while checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles.

f) Ensure the independence of the internal audit, risk and compliance functions, which report to the committee; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; set its priorities and work programmes, ensuring that it focuses primarily on the main risks the Company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

g) Examine and review the annual work plan of the internal audit, risk and compliance functions, including reports of any incidents that may have arisen while carrying out the work; and scrutinising the reports on the activities of those functions at the end of each year.

h) Escalate to the Board of Directors proposals to select, appoint, re-elect and replace the auditor, assuming responsibility for the selection process pursuant to applicable EU legislation, in addition to the conditions of her/her engagement and regularly request information on the audit plan and its execution from him/her, in addition to ensuring his/her independence in the exercise of audit duties.

i) Establish appropriate relationships with the external auditor to receive information on issues that may threaten his/her independence, to be analysed by the Committee, and any other issues related to the process of auditing financial statements. Furthermore, when appropriate, authorise services other than those prohibited under applicable legislation, as well as the other communications stipulated in audit legislation and technical auditing standards. In all cases, an annual statement must be received from the external auditors, regarding their independence with regards to their relationship with the entity or directly or indirectly related entities, in addition to detailed information on an individual basis about any type of payments received from these entities by the external auditor or by persons or entities related to them, pursuant to the regulations on auditing activities, ensuring that the Company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

On this point, the Committee shall:

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

- Ensure that the Company notifies any change of external auditor to the Comisión Nacional del Mercado de Valores as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

- Investigate the issues giving rise to the resignation of the external auditor, should this come about.

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

- Ensure fulfilment of the audit engagement, requiring that the auditor's opinion on the financial statements and the content of the report are drafted clearly and precisely.

- Issue on an annual basis, prior to the issuance of the audit report on the financial statements, a reporting containing an opinion regarding whether the independence of auditors and audit firms has been compromised. This report shall be published on the Company’s website sufficiently in advance of the Annual General Meeting, and must contain, in all cases, a reasoned evaluation of the provision of each and every additional service referenced in the previous point, considering each service individually and jointly, separate to the statutory audit and in relation to the system of independence and regulations governing auditing activities.

j) Inform the Board of Directors in advance about all matters foreseen in law, the Bylaws and the Regulations of the Board of Directors; in particular those regarding:

j.1) The financial information that the Company must regularly make public; j.2) The non-financial information that the Company must regularly make public;

j.3) The creation or acquisition of shares in special purpose entities or those registered in countries or territories

considered tax havens; and

j.4) Transactions with related parties.

Any report issued by the Audit Committee regarding related-party transactions shall be published on the Company's website sufficiently in advance of the Annual General Meeting.

j.5) Any structural changes, mergers or acquisitions the Company may be planning, including their financial terms and accounting impact and, in particular, the proposed exchange ratio.

k) Receive from Senior Management the justification for any change of accounting criteria or principles, and to review such reasons.

l) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities in the Company.

m) Supervise the Internal Codes of Conduct and regulatory compliance not expressly attributed to another Committee or to the Company's Board of Directors. In this respect, the Audit Committee shall:

m.1) Supervise the internal standards and procedures there to ensure the proper monitoring of the code of conduct and regulatory compliance across the various departments and areas of the Company, especially the Company’s General Code of Conduct and internal regulations on the stock market; and ensure that they remain up to date at all times.

n) Oversee compliance with the Company’s corporate governance rules. In this respect, the Audit Committee shall be responsible for:

n.1) Supervision of transparency in corporate actions.

n.2) The periodic evaluation of the effectiveness of the Company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

n.3) Reporting and, if appropriate, raising proposals to the Board of Directors regarding the development of the corporate governance rules for the Company and its Group based on the provisions of the Bylaws and in accordance with the applicable legislation at all times.

o) Supervise compliance with the Company's corporate social responsibility policy. In this respect:

o.1) Review the Company's corporate social responsibility policy, ensuring that it is geared to value creation.

o.2) Specifically, the Committee shall ensure that the corporate social responsibility policy specifies at least:

- The objectives of this policy and the development of tools to support it.

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

- Concrete practices on matters related to: employees, customers, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.

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

- Communication channels, participation and dialogue with stakeholders.

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

p) Supervision of the process of reporting on diversity and reporting non-financial information in accordance with applicable rules and international benchmarks.

q) Perform any other duties entrusted to it by the Board of Directors. Main actions in the year:

1. Draft Regulation of the Audit, Risk and Compliance Committee.

2. Review of projects in progress.

3. Implementation of Corporate and Project Risk Management Control, reporting directly to the Audit Committee.

A. Implementation of improvements to the ICFR system.

5. Compliance actions: Proposed internal risk mitigation rules. Code of Conduct. Whistleblower Channel.

6. Study of supporting documentation of commercial brokering contracts.

7. Internal Regulations of the Audit, Risk and Compliance Committee, in line with the CNMV Technical Guide for Audit Committees.

NOMINATION AND REMUNERATION COMMITTEE

Functions:

The Committee, independently of any other functions entrusted to it by the Board of Directors or those which, within the scope of its functions, it may submit to the Board for consideration and approval, performs the following main duties:

1. In relation to directors and the Board of Directors:

a) Evaluate the competencies, knowledge and experience necessary for the Board of Directors. To this end, the Committee shall define the duties and capabilities necessary in candidates who shall fill each vacancy and evaluate the time and dedication necessary in order to efficiently fulfil their commitment, and run an annual check on compliance with the director selection policy.

b) Set a target for representation for the underrepresented gender on the Board, and draw up guidelines on how to achieve this objective.

c) Submit to the Board of Directors proposals for the appointment of independent directors for their nomination through co-option or for their submission to the General Meeting's decision, in addition to proposals for the re-election or dismissal of said directors by the General Meeting.

d) Report on any proposals for appointment of all other directors for their appointment by co-option by the Board or for their submission to the General Meeting's decision, in addition to proposals for the re-election or dismissal of such directors by the General Meeting.

e) Research and organise the succession of the Chairman of the Board of Directors and, as appropriate, the Chief Executive of the Company, formulating proposals to the Board of Directors so that said succession can be processed in an ordered and well-executed manner.

f) Propose the remuneration policy to the Board of Directors, as well as the individual remuneration and other contractual terms of executive directors, while ensuring compliance with the same.

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

h) Verify the information on director pay contained in corporate documents, including the Annual Directors' Remuneration Report.

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

j) Report to the Board of Directors on proposals for removal from office of a director due to breach of his or her duties as set out in the legislation and internal regulations in force at the given time, or due to the occurrence of any of the events of removal or resignation set out in the applicable regulations.

2. In relation to Senior Management personnel and executive remuneration policies:

a) Inform of any proposals to the Board of Directors for appointment or dismissal of senior management and the basic terms of their contracts. For these purposes, the Committee shall receive from the Management, the Board of Directors or its committees, as appropriate, a description of the post to be filled, the desired profile of potential candidates, the selection proposal and the contractual terms that will be offered to the new incumbent, all of which must be in line with the remuneration policy for senior managers. The Committee may also interview candidates if it deems this necessary, request further information and, in general, take any action it deems necessary before making its final proposal.

b) Propose, to the Board of Directors, the remuneration policy of general managers and of whomever else discharges senior management duties under the direct supervision of the Board of Directors, the Executive Committee or Chief Executive Officers, while ensuring compliance with that policy.

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

d) Verify the information on director pay contained in corporate documents, including the Annual Directors' Remuneration Report.

e) Verify, each time substantial amendments are made to the contracts or changes made to the policies, that the terms of the contracts of the senior management are consistent with the remuneration policies in force.

f) Ensure, annually, that senior management remuneration policies are properly implemented, that no payments are made that are not provided for in those policies, and propose any measures that may be needed to recover any amounts unduly paid.

g) Periodically review the general remuneration systems for the Group's staff, including an assessment as to their suitability and results.

3. Review and evaluate Corporate Governance Policies, ensuring that all such policies remain up-to-date and compliant with prevailing law and regulations, and making any proposals for review, modification and improvement that it deems appropriate.

A. Draw up, for submission to the Board of Directors, the corresponding annual directors' remuneration statement (ADRS), which must be disclosed in accordance with the law.

5. Perform any other duties entrusted to it by the Board of Directors.

Key actions carried out in 2019 included:

1. Proposal to appoint Directors by co-option.

2. Proposal to the shareholders at the General Meeting to ratify Director appointments.

3. Proposal to appoint members of the Audit Committee and of the Nomination and Remuneration Committee.

4. Proposal for appointment of Senior Managers.

5. Proposal to modify the grounds for resignation, removal and dismissal of directors under the Regulations of the Board of Directors.

6. Drafting of an Internal Committee Regulation in compliance with the CNMV Technical Guide for Nomination and Remuneration Committees.

7. Assessment of the Board of Directors with the assistance of an external and independent third party.

This Annual Corporate Governance Report was approved by the Board of Directors of the company at the meeting held on:

22/05/2020

State whether any director has voted against or abstained from approving this report.

[ ] Yes
[√] No

DURO FELGUERA, S.A.

Auditor's report on the "Information relating to Internal Control over Financial Reporting (ICFR-SCIIF in Spanish)" for 2019
(Free translation from the original in Spanish)

Building a better working world

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

AUDITOR'S REPORT ON THE "INFORMATION RELATING TO INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR-SCIIF IN SPANISH)" FOR 2019

To the directors of Duro Felguera, S.A.

At the request of the Board of Directors of Duro Felguera S.A. (the Company) and its subsidiaries (the Group), and in accordance with our engagement letter dated December 2, 2019, we have performed certain procedures on the accompanying "ICFR-related information" included in the 2019 Annual Corporate Governance Report of the Group, which summarizes the Company's internal control procedures regarding annual financial information.

The Board of Directors is responsible for taking appropriate measures to reasonably ensure the implementation, maintenance, supervision, and improvement of a correct internal control system, as well as preparing and establishing the content of all the related accompanying ICFR data.

It is worth noting that apart from the quality of design and operability of the Group's internal control system in relation to its annual financial information, it only provides a reasonable, rather than absolute, degree of security regarding its objectives due to the inherent limitations to the internal control system as a whole.

Throughout the course of our audit work on the financial statements, and in conformity with Technical Auditing Standards, the sole purpose of our evaluation of the Group's internal control system was to establish the scope, nature, and timing of the audit procedures performed on the Group's financial statements. Therefore, our internal control assessment, performed for the audit of the aforementioned financial statements, was not sufficiently extensive to enable us to issue a specific opinion on the effectiveness of the internal control over the regulated annual financial information issued.

For the purpose of issuing this report, we exclusively applied the following specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of the abovementioned procedures performed was limited and substantially less than that of an audit or a review on the internal control system, we have not expressed an opinion regarding its efficacy, design, or operational effectiveness regarding the Group's annual financial information for 2019 described in the accompanying ICFR.

Consequently, had we performed procedures additional to those shown in the abovementioned Guidelines, or carried out an audit or review on the internal control system of regulated annual financial information, other matters might have come to our attention which would have been reported to you.

Since this special engagement does not constitute an audit of the financial statements or a review in accordance with prevailing audit regulations in Spain, we do not express an opinion in the terms established therein.

The following procedures were applied:

1. Read and understand the information prepared by the Group in relation to the ICFR - which is provided in the disclosure information included in the Management Report- and assess whether such information addresses all the required information which will follow the minimum content detailed in Section F, relating to the description of the ICFR, as per the Annual Corporate Governance Report model established by CNMV Circular 5/2013 of June 12, 2013, subsequently amended by CNMV Circular 7/2015 of June 22, 2015 and CNMV Circular 2/2018 of June 12 (hereinafter the CNMV Circulars).

2. Question personnel in charge of preparing the information described in the above section 1, to: (i) obtain an understanding of its preparation process; (ii) obtain information making it possible to evaluate whether the terminology employed is in line with reference framework definitions; (iii) gather information regarding whether the described control procedures are implemented and functioning within the Group.

3. Review the explanatory documentation supporting the information described in section 1 above, which should, mainly, include that information directly provided to those in charge of preparing the descriptive ICFR information. This documentation includes reports prepared by the internal audit function, senior executives and other internal/external specialists in their role supporting the Audit and Compliance Committee.

4. Compare the information contained in section 1 above with the Group's ICFR knowledge obtained as a result of performing the procedures within the framework of auditing the financial statements.

5. Read the minutes of the Board of Directors Meetings, Audit and Compliance Committee, and other Company commissions in order to evaluate the consistency between issues described in the minutes related to the ICFR and information discussed in section 1 above.

6. Obtain the representation letter related to the work performed, duly signed by those responsible for preparing and authorizing the issuance of the information discussed in section 1 above.

As a result of the procedures applied on the ICFR-related information, no inconsistencies or incidents have come to our attention which might affect it.

This report was prepared exclusively within the framework of the requirements of the article 540 of the Spain's Corporate Enterprises Act, and CNMV Circulars on ICFR description in the Annual Corporate Governance Report.

ERNST & YOUNG, S.L.

(signed on the original Spanish version)

Enrique Quijada Casillas

May 22, 2020

DURO FELGUERA, S.A.

APPROVAL OF THE BOARD OF DIRECTORS

Chairman	Rosa Isabel Aza Conejo
Chief Executive Officer	José María Orihuela Uzal
Director	Acacio F. Rodríguez García
Director	Ignacio Soria Vidal
Director	José Julián Massa Gutiérrez del Álamo
Director	Valeriano Gómez Sánchez
Director	Jordi Sevilla Segura
Secretary, non-director	Secundino Felgueroso Fuentes

Certificate prepared by Secundino Felgueroso Fuentes, Secretary to the Board of Directors, to state that, after the preparation and majority approval of the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow, Notes to the Annual Accounts and Management Report for the year ended 31 December 2019 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, 22 May 2020

Rosa Isabel Aza Conejo
Chairman

Secundino Felgueroso Fuentes
Secretary, non-director