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, 2017

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

AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

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, 2017, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2017 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for opinion

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

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

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

Material uncertainty related to going concern

We draw attention to the matter described in Note 2.2 to the accompanying financial statements, which indicates that at December 31, 2017, the Company had negative working capital amounting to 159 million euros, losses of 228 million euros, and negative equity of 181 million euros, which, is considered cause for dissolution in accordance with article 363 of the Corporate Enterprises Act. As explained in the aforementioned note, the Company is in the process of restructuring its debt with its principal financial institutions, and is negotiating new credit and guarantee facilities, the possible formalization of which may be contingent upon carrying out a capital increase. The Company's directors have prepared the accompanying financial statements on a going concern as they expect a successful outcome for both the negotiations with financial institutions and the capital increase.

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

These circumstances are indicative of a material uncertainty that could lead to significant doubts as to Company's ability to continue as a going concern and settle its liabilities for the amounts and in accordance with the classifications shown in the financial statements. Our opinion was not modified with respect to this matter.

Key audit matters

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

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

Recognition of income from construction contracts

Description

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

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

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

Our response

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

- We gained an understanding of the processes established by management for recognizing revenue derived from construction contracts, including evaluation of the design and implementation of relevant controls and their operational effectiveness.
- In order to perform substantive tests, we selected a sample of projects, applying qualitative and quantitative criteria, such as identifying relevant contracts, due either to the contract's total sale price, the amount of related revenue or margins recorded in the year or to the risk associated to costs incurred or completion costs.
- For the selected projects, we obtained and read contracts to understand the most relevant clauses and their implications, in addition to examining budgets as well as follow-up and execution reports for the related projects.
- We reviewed project development with business line and project managers, the reasons for deviations from initially budgeted costs and actual costs, and their impact on re-estimating project margins.

- We analyzed the performance of margins in terms of both variations in sale price and total budgeted costs.
- We obtained evidence of technical approvals and the statement of economic negotiations related to changes in the contracts and claims being negotiated with customers.
- We checked that the disclosures in the notes to the accompanying financial statements related to the recognition of revenue from contracts based on the percentage of completion method were in conformity with the regulatory framework for financial reporting applicable to Company.

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

Description

We draw your attention to the matter described in Note 28 to the accompanying financial statements, which states that on December 14, 2017, the Company disclosed the receipt of the ruling from Madrid Central Court of Instruction No. 2, allowing the lawsuit filed against Dura Felguera, S.A. and others by the Special Prosecution Office for Corruption and Organized Crime, concerning a possible alleged case of corruption of a foreign civil servant or authority, in addition to an alleged money laundering offense in connection with a payment totaling approximately 80.6 million US dollars. Both offenses relate to a contract signed by the Company for the construction and start-up of a combined cycle plant in Venezuela.

As likewise explained in the aforementioned note, given the early stages of the proceedings, it is not possible to determine the likelihood or extent of the possible consequences, which will depend on the outcome of the criminal investigation.

Generally, these proceedings are subject to uncertainty and can take a considerable period of time to resolve, requiring complex estimates on the part of management. Consequently, we determined this to be a key audit matter.

Our response

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

- We reviewed the lawsuit filed against the Company by the Madrid Central Court of Instruction No. 2.
- We examined the work and conclusions drawn from the internal investigation carried out by the Company in connection with this matter.
- 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.

Estimation of impairment losses for the principal past-due receivables

Description

As explained in Note 11 to the financial statements, at December 31, 2017, "Trade receivables," net of impairment, amounted to 75 million euros.

The estimation of impairment loss on these assets requires significant judgment on the part of Management, the relevant principles and criteria of which are provided in Notes 3 and 11 to the accompanying financial statements. The identification of impaired credit exposures and the determination of recoverable amount are processes subject to the uncertainty inherent in using hypotheses and estimates, e.g., the financial position of the debtor or expected cash flows. As explained in Note 11, of this amount, the main account receivable is past due and relates to the Termocentro project in Venezuela.

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

Our reponse	The audit procedures carrried out on past-due receivables and, specifically, on the Termocentro project (Venezuela) were the following: ▶ We carried out an itemized review of past-due receivables, analyzing the reasonableness of the hypotheses used by Management to identify and quantify impairment. ▶ With regard to the Termocentro project in Venezuela, we obtained confirmation of the balance owed by the customer C.A. Electricidad de Caracas (CDC) and we reviewed the reasonableness of the principal hypotheses used by the Company, 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. ▶ In addition, we reviewed disclosures included in the notes to the financial statements

Deferred tax assets

Description	Deferred tax assets at December 31, 2017 amounted to 4.7 thousand euros. At year end, due to the circumstances described in Note 2.2 to the accompanying financial statements, management has reassessed the recovery of deferred tax assets, for which it has derecognized 35.7 million euros from the accompanying financial statements, relating primarily to tax loss carryforwards and deductions. The total amount derecognized during the year totaled 38 million euros. The assessment carried out by management to determine the recoverable amount of this asset and the amount recognized in the accompanying financial statements is based on estimates of future taxable income and the Company's business plan in conformity with prevailing tax regulations and recognition policies established in the regulatory framework for financial reporting applicable to the Company. We determined this circumstance to be a key audit matter, since it requires that management make significant judgments and estimates.
Our response	With regard to this matter, our audit procedures included the following: ▶ We reviewed the criteria used to calculate deferred tax assets. ▶ We reviewed the assumptions used by Management to estimate how long it will take to utilize the deferred tax assets recognized, focusing our analysis on the economic, financial and tax assumptions used by the Company to estimate future taxable profit and involving our tax experts.

- We involved our internal tax experts to analyze the tax assumptions used in accordance with prevailing tax regulations.
- We likewise examined the requirements established by the regulatory framework for financial reporting applicable to recognition of deferred tax assets.
- We reviewed disclosures included in the notes to the financial statements.

Other information: management report

Other information refers exclusively to the 2017 management report, the preparation of which is the responsibility of the Company's directors and is not an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the management report. In conformity with prevailing audit regulations in Spain, our responsibility in terms of the management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

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

b) A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on our knowledge of the 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 in the above paragraph, the information contained in the management report is consistent with that provided in the 2017 financial statements and their content and presentation are in conformity with applicable regulations.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Report on other legal and regulatory requirements

Additional report to the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee on March 26, 2018.

Term of engagement

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

ERNST & YOUNG, S.L.

(signed on the original Spanish version)

José Enrique Quijada Casillas

March 26, 2018

Duro Felguera, S.A.

Financial Statements for the year ended 31 December 2017
and Management Report for 2017

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DURO FELGUERA, S.A.

BALANCE SHEET AT 31 DECEMBER 2017 AND 2016
(€ thousand)

ASSETS	Note	At 31 December 2017	2016
NON-CURRENT ASSETS			
Intangible assets	**6**	**13,146**	**15,080**
Property, plant and equipment	**7**	**16,737**	**50,392**
Investment properties	**8**	**13,880**	**16,826**
Non-current investments in group companies and associates		**64,672**	**111,547**
Equity instruments	**10**	64,672	111,547
Non-current investments	**9**	**5,582**	**6,165**
Equity instruments		5,480	5,995
Loans to companies	**11**	85	155
Other financial assets	**11**	17	15
Deferred tax assets	**21**	**4,728**	**42,825**
TOTAL NON-CURRENT ASSETS		**118,745**	**242,835**
CURRENT ASSETS			
Non-current assets held for sale	**5**	**27,395**	**-**
Inventories	**13**	**4,508**	**7,558**
Trade and other receivables	**9-11**	**202,862**	**270,530**
Trade receivables		145,643	200,626
Trade receivables from group companies and associates	**31**	28,024	37,488
Other receivables		19,205	18,258
Personnel		101	108
Current tax assets		108	276
Other receivables from Public Administrations		9,781	13,774
Current investments in group companies and associates	**9-11-31**	**170,908**	**240,289**
Loans to companies		4,448	4,818
Other financial assets		166,460	235,471
Current investments	**9-11**	**4,749**	**1,832**
Loans to companies		14	14
Derivatives	**9-12**	1,052	-
Other financial assets		3,683	1,818
Prepayments for current assets		**1,227**	**792**
Cash and cash equivalents	**9-14**	**58,896**	**65,226**
TOTAL CURRENT ASSETS		**470,545**	**586,227**
TOTAL ASSETS		**589,290**	**829,062**

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

DURO FELGUERA, S.A.

BALANCE SHEET AT 31 DECEMBER 2017 AND 2016
(€ thousand)

		At December 31	
EQUITY AND LIABILITIES	**Note**	**2017**	**2016**
EQUITY			
Capital and reserves		**(179,432)**	**50,275**
Capital	**15**	80,000	80,000
Reserves	**15**	159,900	162,085
Own shares and equity holdings	**15**	(87,719)	(87,719)
Prior periods' profit and loss	**15**	(104,091)	(81,085)
Profit/(loss) for the year	**15**	(227,522)	(23,006)
Valuation adjustments		**(3,646)**	**4,686**
Hedging transactions and other	**12**	789	5,531
Available-for-sale financial assets		(1,320)	(1,034)
Translation differences		(3,115)	189
Grants, donations and bequests received	**17**	**1,930**	**2,025**
TOTAL EQUITY		**(181,148)**	**56,986**
NON-CURRENT LIABILITIES			
Non-current provisions		**68,147**	**38,798**
Long-term employee benefits	**19**	601	539
Other provisions	**20**	67,546	38,259
Non-current payables	**9-18**	**68,048**	**265,609**
Bank borrowings		64,911	260,688
Derivatives	**12**	-	903
Other financial liabilities		3,137	4,018
Deferred tax liabilities	**21**	**4,394**	**4,753**
TOTAL NON-CURRENT LIABILITIES		**140,589**	**309,160**
CURRENT LIABILITIES			
Liabilities associated with non-current assets held for sale	**5**	**20,861**	**-**
Current provisions	**20**	**33,745**	**27,582**
Current payables	**9-18**	**255,268**	**96,074**
Bank borrowings		253,787	90,107
Derivatives	**12**	-	3,850
Other financial liabilities		1,481	2,117
Current payables to group companies and associates	**9-18-31**	**46,904**	**34,014**
Trade and other payables	**9-18**	**273,071**	**305,153**
Suppliers		168,062	157,148
Suppliers, group companies and associates	**31**	30,938	75,683
Other payables		10,046	6,913
Personnel (salaries payable)		2,940	3,604
Current tax liabilities		763	3,023
Other payables to Public Administrations		5,386	5,166
Advances from customers		54,936	53,616
Current accruals		**-**	**93**
TOTAL CURRENT LIABILITIES		**629,849**	**462,916**
TOTAL EQUITY AND LIABILITIES		**589,290**	**829,062**

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

INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016 (€ thousand)

	Note	Year ended 31 December 2017	2016
CONTINUING OPERATIONS			
Revenue	**23**	**279,452**	**371,065**
Sales		263,860	367,066
Services rendered		15,592	3,999
Changes in work in progress		**-**	**-**
Own work capitalised		**320**	**2,000**
Cost of sales	**23**	**(195,641)**	**(233,738)**
Raw materials and other consumables used		(148,086)	(174,142)
Subcontracted work		(47,555)	(59,596)
Other operating income		**91**	**554**
Non-trading and other operating income		91	539
Operating grants released to income during the year	**23**	-	15
Personnel expenses	**23**	**(34,120)**	**(34,657)**
Salaries and wages		(27,979)	(28,114)
Employee benefits expense		(6,141)	(6,543)
Other operating expenses		**(111,480)**	**(91,526)**
External services		(53,307)	(87,578)
Taxes		(2,172)	(741)
Losses, impairment and changes in trade provisions		(56,001)	(3,207)
Amortisation and depreciation	**6-7-8**	**(4,045)**	**(3,322)**
Release of non-financial capital grants and other	**17**	**127**	**125**
Provision surpluses		**862**	**-**
Impairment and gains/(losses) on disposal of fixed assets	**23**	**(3,736)**	**-**
Impairment and losses		(3,916)	-
Gains/(losses) on disposal and other		180	-
Other income/(expense)		**537**	**(487)**
RESULTS FROM OPERATING ACTIVITIES		**(67,633)**	**10,014**
Finance income		**14,889**	**6,455**
Finance costs		**(5,412)**	**(4,782)**
Change in fair value of financial instruments		**(36)**	**(179)**
Exchange gains/(losses)		**(18,684)**	**374**
Impairment and gains/(losses) on disposal of financial instruments		**(119,384)**	**(31,268)**
NET FINANCE INCOME/(COST)	**24**	**(128,627)**	**(29,400)**
PROFIT/(LOSS) BEFORE TAX		**(196,260)**	**(19,386)**
Income tax expense	**22**	**(31,262)**	**(3,620)**
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**(227,522)**	**(23,006)**
PROFIT/(LOSS) FOR THE YEAR		**(227,522)**	**(23,006)**

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 2017 AND 2016
A) STATEMENT OF TOTAL CHANGES IN EQUITY
(€ thousand)

	Registered capital	Reserves	(Own shares and equity holdings)	Prior years' profit and loss	Profit/(loss) for the year	Valuation adjustments	Grants, donations and bequests received	TOTAL
BALANCE AT 1 JANUARY 2016	**80,000**	**166,114**	**(87,719)**	**5,549**	**(85,482)**	**(2,380)**	**2,119**	**78,201**
Total recognised income and expense	-	-	-	-	(23,006)	7,066	(94)	(16,034)
Transactions with equity holders or owners								
Treasury share transactions	-	-	-	-	-	-	-	-
- Changes in equity arising from business combinations	-	-	-	-	-	-	-	-
- Other transactions with equity holders or owners	-	-	-	(1,148)	-	-	-	(1,148)
Other changes in equity	-	-	-	(85,482)	85,482	-	-	-
Other movements	-	(4,029)	-	(4)	-	-	-	(4,033)
BALANCE AT 31 DECEMBER 2016	**80,000**	**162,085**	**(87,719)**	**(81,085)**	**(23,006)**	**4,686**	**2,025**	**56,986**
BALANCE AT 1 JANUARY 2017	**80,000**	**162,085**	**(87,719)**	**(81,085)**	**(23,006)**	**4,686**	**2,025**	**56,986**
Total recognised income and expense	-	-	-	-	(227,522)	(8,332)	(95)	(235,949)
Transactions with equity holders or owners	-	-	-	-	-	-	-	-
- Treasury share transactions	-	-	-	-	-	-	-	-
- Changes in equity arising from business combinations	-	-	-	-	-	-	-	-
- Other transactions with equity holders or owners	-	-	-	-	-	-	-	-
Other changes in equity	-	-	-	(23,006)	23,006	-	-	-
Other movements	-	(2,185)	-	-	-	-	-	(2,185)
BALANCE AT 31 DECEMBER 2017	**80,000**	**159,900**	**(87,719)**	**(104,091)**	**(227,522)**	**(3,646)**	**1,930**	**(181,148)**

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 2017 AND 2016

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

		Year ended December 31	
	Note	**2017**	**2016**
Profit/(loss) for the year	**15**	**(227,522)**	**(23,006)**
Income and expense recognised directly in equity			
Available-for-sale financial assets		(726)	1,766
Grants, donations and bequests received	**17**	-	-
Cash flow hedges		3,706	(2,925)
Translation differences		233	(425)
Other income and expense recognised directly in equity		-	7,522
Tax effect	**21**	(4,024)	1,128
Total income and expense recognised directly in equity		**(811)**	**7,066**
Amounts transferred to the income statement			
Other income and expenses		(7,521)	-
Grants, donations and bequests received	**17**	(127)	(125)
Tax effect	**21**	32	31
Total amounts transferred to the income statement		**(7,616)**	**(94)**
TOTAL RECOGNISED INCOME AND EXPENSE		**(235,949)**	**(16,034)**

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 2017 AND 2016
(€ thousand)

	Note	Year ended At 31 December 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES	**25**		
Profit/(loss) for the year before tax		(196,260)	(19,386)
Profit/ (loss) adjustments		173,484	33,891
Changes in operating assets and liabilities		37,002	(152,546)
Other cash flows from operating activities		9,478	1,423
		23,704	**(136,618)**
CASH FLOWS FROM INVESTING ACTIVITIES	**26**		
Payments for investments		(5,762)	(65,036)
Proceeds from sale of investments		180	-
		(5,582)	**(65,036)**
CASH FLOWS FROM FINANCING ACTIVITIES	**27**		
Proceeds from and payments for financial liability instruments		(16,870)	100,429
Dividends and interest on other equity instruments paid		-	(1,148)
		(16,870)	**99,281**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**1,252**	**(102,373)**
Cash and cash equivalents at the beginning of the year	**14**	**65,226**	**167,599**
Profit/(loss) on exchange differences in cash and cash equivalents		(7,582)	-
Cash and cash equivalents at the end of the year	**14**	**58,896**	**65,226**

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

DURO FELGUERA, S.A.

NOTE TO THE 2017 FINANCIAL STATEMENTS

(€ thousand)

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.

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 accompanying financial statements were prepared by the Board of Directors on 13 March 2018 and will be submitted for approval by the Annual General Meeting. It is expected that they will be approved without modification.

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

2.2 Accounting policies

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

On 17 December 2016, Royal Decree 602/2016, of 2 December was published in the Official State Gazette (Boletín Oficial del Estado). This legislation amended the General Accounting Plan approved by Royal Decree 1514/2007, of 16 November; the General Accounting Plan for Small- and Medium-sized Companies approved by Royal Decree 1515/2007, of 16 November; the Rules for the Preparation of Consolidated Financial Statements approved by Royal Decree 1159/2010, of 17 September; and the Rules for Adaptation of the General Accounting Plan to Non-profit Entities approved by Royal Decree 1491/2011, of 24 October.

The content of this Royal Decree must be applied to financial statements for years beginning on or after 1 January 2016 (second additional provision).

The main line items affected by the amendments are:

a) Intangible assets (previously considered to have an indefinite useful life).
b) Goodwill.
c) Goodwill reserve.
d) Greenhouse gas emission allowances

The main differences between the accounting policies and classification criteria used in 2017 and those applied in 2016 have had no impact on the Company.

Going concern assumption

The Company had negative working capital at 31 December 2017 of €159,304 thousand (2016: positive working capital of €123,311 thousand). It reported a loss for the year of €227,522 thousand (2016: €23,006 thousand), leaving negative equity at 31 December 2017 of €181,148 thousand. Losses arose mainly as a result of the impairment of a receivable in Venezuela caused by the country's economic downturn and financial problems, and the increased provision by the Duro Felguera Australia subsidiary for the Roy Hill project based on the current outlook for litigation and impairment of deferred tax assets. Exceptional losses left the Company with negative equity, placing it in one of the situations provided in article 363 of the Corporate Enterprises Act (Ley de Sociedades de Capital), which could be resolved by completing the process described below.

Over the past two years, the Group's liquidity risk (Note 4.1.c) has increased, mostly because of: the failure to secure financing from the main financial institutions in the bank pool and the restriction on existing credit lines; the need to pledge cash or provide security deposits to guarantee fulfilment of projects due to the inability to provide guarantees; and cash burn caused by cost overruns, mainly on the Vuelta de Obligado project, and the costs of ongoing litigation over the Roy Hill project.

At the date of authorisation for issue of the accompanying financial statements, the Company is arranging a debt restructuring with the main financial institutions. The negotiations envisage maintaining sustainable debt of around €85 million and the conversion of another tranche into convertible shares and/or options.

The parties are also negotiating access to a new, additional line of funding of €25 million and bank guarantees for new projects for up to €100 million. Talks with the banks are proceeding well and to schedule, although a potential agreement is contingent on the Company carrying out a capital increase. Accordingly, the Company has engaged a securities agency to evaluate interest and find prospective investors in a capital increase of up to €125 million. The current outlook is for a positive outcome regarding the capital increase. Both measures will enable the Company to restore and even strengthen its equity structure, addressing the cause for dissolution and providing the necessary financial soundness to continue its normal course of business, as outlined in the current business plan. To illustrate the support of the financial institutions, on 16 January 2018, a new extension of the standstill agreement was signed, with maximum maturity of 15 April 2018 (Note 33).

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

Moreover, to strengthen its short-term liquidity position, the Company is undertaking, together with its advisors, alternative measures, including disposals of non-core assets, such as the office building in Madrid, and certain properties in Gijón and Oviedo. As part of these disposals, on 27 February 2018, the Via de los Poblados and the Las Rozas buildings were sold, reducing borrowings by €21 million and leaving cash of €7 million

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

The directors of the Company have prepared the accompanying financial statements on a going concern basis in accordance with the favourable outlook for the conclusions of the negotiation process with the financial institutions and the success of the capital increase. Until the process is clear, there are reasonable doubts regarding the Company's ability to continue its operations.

2.3 Comparative information

In accordance with company law, for comparative purposes the Company included the 2016 figures in addition to those of 2017 for each item of the balance sheet, the income statement, the statement of changes in equity and the statement of cash flows.

Quantitative information for 2016 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 31 March 2018 and will be placed on file with the Oviedo Companies Register.

2.6 Accounting estimates and judgements

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

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

a) Warranty claims

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

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

b) Litigation

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

c) Income tax and deferred tax assets

The Company is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The 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 €3,126 thousand in the income tax liability (2016: €362 thousand).

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

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

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

e) Receivables and financial assets

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

f) Revenue recognition

The Company recognises revenue based on the percentage-of-completion method. The stage of completion is calculated as the portion that contract costs incurred bear to the estimated total contract costs. This revenue recognition method is applied only when the outcome of the contract can be estimated reliably and it is probable that the contract will be profitable. When the outcome of the contract cannot be estimated reliably, contract revenue is recognised only to the extent of the recovery of the costs. When it is probable that contract costs will exceed contract revenue, the loss is recognised as an expense immediately. In using the percentage-of-completion method, the Company makes significant estimates regarding the total costs necessary to fulfil the contract.

These estimates are reviewed and assessed regularly in order to verify if a loss has been generated and if the percentage-of-completion method can continue to be applied, or it is necessary to re-estimate the expected margin on the project.

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

The Company's service contracts general include penalty provisions for delays or other reasons, and occasionally discounts, which vary from contract to contract. At 31 December 2017 the Company recorded a provision for penalties of €2,449 thousand (2016: €8,001 thousand).

At year-end 2016, the Duro Felguera Argentina subsidiary recognised claims included in the selling price amounting to €39.6 million, related to ARP 430 million plus interest for 2016 at Banco de la Nación Argentina's asset rate of 24.66%. At 31 December 2017, the amount recognised was €47.3 million, updated by the interest for the year at this interest rate. The total amount of claims submitted at the closing rate was €127 million (ARP 2,595 million).

The arbitration is currently suspended until 28 May 2018 after the request was approved by the Arbitration Court on 14 August 2017, with DF Argentina expressing its conformity on 19 September 2017. For this, DF Argentina and General Electric signed Conditional Supplemental Agreement II, which ensures the continuation of the arbitration action on behalf of the latter against CVO for at least ARP 430 million plus interest and finance charges, which at the date of the agreement amounted to ARP 779 million. However, this will be updated at the date of collection by DF Argentina in accordance with the transactional agreement between the parties. If the agreement is not reached, the arbitration will continue until its conclusion. The external and internal legal advisors consider that DF will be successful in its claim considering enforcement of the contract and applicable Argentine legislation in similar cases, since the events that gave rise to the cost overrun of the project could not be foreseen by DF Argentina or avoided. DF Argentina attempted to minimise the extra costs and do what it could to proceed with the project in order to fulfil its contractual obligations.

At 31 December 2017, there were no amounts invoiced and receivable from CVO.

In addition, claims for the Djelfa project have been recognised amounting to €22.6 million in relation to contractual costs incurred for the extension of the deadline caused and recognised formally by the customer. Of this amount, the portion related to the recognised stage of completion of the project, of €13.4 million, was recognised as revenue.

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

- On 2 April, the customer notified, in writing, its express recognition of the delay of 18 months, 100% attributable to it.

- As a result of this notification, the Company assessed and presented the customer with a claim for approximately €53 million for the excess costs related to the 18-month delay.

- On 27 August, the customer confirmed receipt of the claim and its assessment.

- The cost claim was not approved by the customer in writing. However, there are certain items of the claim that are required under the contract and must be maintained through the contractually agreed dates. Therefore, the delay confirmed and approved by the customer extends those items by an additional 18 months. Acceptance did not result in any dispute by the customer, so the amounts are considered to be fully recoverable. These items relate to the costs of guarantees, the letter of credit, the camp and storage of the turbines provided by the customer.

At 31 December 2017, invoiced amounts receivable from Djelfa amounted to €5,818 thousand, of which €3,228 thousand have been collected to date.

In accordance with prevailing accounting standards, the effects of any changes in accounting estimates are recognised prospectively in the income statement. In the fourth quarter, the Company re-estimated, as disclosed in a price-sensitive information notice, the results of the Vuelta de Obligado and Fluxys projects, with a negative impact on profit or loss for the year of €14,676 thousand.

g) Investment portfolio

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

h) Bolivar exchange rate

The Company has chosen to use the DICOM exchange rate (previously the SIMADI) (3,345 bolivars/USD) for the translation of the financial statements of its subsidiaries domiciled in Venezuela, as it considers that to be the most appropriate exchange rate in accordance with prevailing accounting regulations.

The DICOM is established as a variable average daily price defined by supply and demand. From 1 January 2017 to 31 December 2017, the Central Bank published the results of the auctions held, resulting in an average bolivar/USD exchange rate of 1,814.87 bolivar/USD. The resulting exchange rate at 31 December 2017 was 3,345 bolivar/USD (2016: 672.12 bolivar/USD).

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

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 5 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 15
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 50 years).

3.4. Impairment of non-financial assets

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

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

3.5. Financial assets

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

a) Loans and receivables

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

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

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

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

b) Held-to-maturity investments

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

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

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

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

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

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

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

e) Available-for-sale financial assets

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

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

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

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

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

3.6. Inventories

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

3.7. Derivative financial instruments and hedging activities

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

Cash flow hedges:

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

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

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

3.8. Cash and cash equivalents

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

3.9. Equity

Share capital is represented by ordinary shares.

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

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

3.10. Financial liabilities

Debts and payables

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

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

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

3.11. Grants received

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

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

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

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

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

3.12. Current and deferred income tax

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

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

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

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

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

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

3.13. Provisions for liabilities and charges and other trade provisions

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

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

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

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

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

3.14. Employee benefits

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

The Collective Labour Agreement covering the Company provides for awards for employees that complete 25 and 35 years of service with the Company, in addition to other obligations with employees. To measure these obligations, the Company has applied its best estimates based on an actuarial study performed by an independent third party in which the following assumptions have been applied: mortality table PERM/F 2000 P and a technical interest rate of 1.24% p.a. (2016: 1.26% p.a.).

b) Coal vouchers

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

Annual coal allowances are calculated based on actuarial studies prepared by an independent actuary and include the following assumptions: mortality tables PERM/F 2000P, technical interest rate of 1.24% p.a. (2016: 1.26%) and consumer prices indices reflecting an increase of 1% p.a. (2016: 1%).

c) Profit-sharing and bonus plans

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

d) Termination benefits

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

3.15. Share-based payments

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

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

3.16. Joint ventures

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

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

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

a) Accounting of joint ventures

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

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

b) Integration of branches

The financial statements of the Company's branches in Mexico, Italy, Venezuela, Egypt, India, Algeria, Bielorrussia, Mauritania, Peru and Canada, 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 y Duro Felguera, S.A., Sucursal Canadá, have been included in accordance with prevailing legislation, integrating all their balances and transactions.

3.17. Revenue recognition

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

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

a) Rendering of services

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

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract.

The Company recognises revenue from turnkey engineering contracts based on the estimated outcome of the contract.

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

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

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

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

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

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

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

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

b) Interest income

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

c) Dividend income

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

3.18. Leases

a) When the Company is lessee – Finance lease

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

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

b) When the Company is lessee – Operating lease

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

c) When the Company is lessor

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

3.19. <u>Foreign currency translation</u>

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.

c) Hyperinflationary economies

The Company has wholly owned subsidiaries and branches domiciled in Venezuela whose sole purpose is to execute the local portion of global projects managed from Spain and mostly developed by other Spanish subsidiaries. Company management considers the functional currency of these subsidiaries and branches to be the euro, for the following reasons:

- The costs and selling prices of work performed by the Venezuelan subsidiaries and branches are all in Venezuelan bolivars (VEF).
- Selling prices and costs denominated in VEF represent an insignificant percentage of the total amount of overall projects. The selling price is determined jointly and the portion in VEF is calculated based on the amount needed to cover the costs to be incurred in that currency, with a minimal margin.
- Financing in Venezuela represents a residual percentage of the total selling price of projects and therefore is not significant with respect to the reporting entity.
- The currency in which revenues from operating activities are recorded is primarily the euro, because, as indicated in the previous point, the portion denominated in VEF has a reduced margin, and remaining cash denominated in Venezuelan bolivars is insignificant.
- Business activities abroad are carried out as an extension of the reporting entity. The projects are managed completely from Spain. All reviews, management and decision-making are in Spain, with the subsidiaries/branches in Venezuela acting as reporting vehicles for the Company.
- The cash flows from business activities in Venezuela are sufficient to cover projects in Venezuela, leaving a minimum margin. It is not necessary to send funds from Spain in this respect. Therefore, the cash flows of the reporting entity are not affected.

As a result of the above, no restatements are made for hyperinflationary economies in the financial statements of these Venezuelan subsidiaries and branches, as their functional currency is not one of a hyperinflationary economy.

The net exposure of ongoing projects in Venezuela to the VEF at 31 December 2017 was €1.1 million (2016: €1.1 million).

3.20. Related party transactions

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

4. Financial risk management

4.1 Financial risk factors

a) Market risk

(i) Foreign currency risk

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

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

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

At 31 December 2017, 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 €7,557 thousand higher (2016: €1,711 thousand higher), whereas if it had strengthened by 5%, post-profit for the year would have been €-6,837 thousand lower (2016: €-1,547 thousand lower), mainly as a result of foreign exchange gains/losses on translation to USD of trade and other receivables, cash, suppliers and customer prepayments, as well as the impact on the final outcome of projects of the amounts of future revenues and expenses in dollars, and the effect of the stage of completion at year end.

(ii) Price risk

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

To minimise the effect of future cost increases for these reasons, the Company includes a scaled price review in contracts of this kind pegged to consumer price indices, as in the case of its contract in Venezuela. Since the commencement of the projects to 31 December 2017, income from the projects in question have risen by €98 million (2016: €98 million) as a result of the price increases linked to consumer price indices, which also affected project costs.

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

(iii) Cash flow and fair value interest rate risk

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

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

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

Based on the simulations performed, the impact on profit or loss of a 10 basis point shift would an increase/decrease of €257 thousand (2016: +/-€255 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 60% of "Trade and other receivables" at 31 December 2017 (2016: 96%), relating to operations with the type of institutions indicated above. Accordingly, the Company considers that credit risk is extremely limited. In addition to the analysis performed before entering into a contract, the overall position of "Trade and other receivables" is monitored on an ongoing basis, while the most significant exposures (including the type of entities mentioned earlier) are monitored individually.

The balance in trade receivables past due but not impaired at 31 December 2017 was €38,871 thousand (2016: €116,767 thousand).

c) Liquidity risk

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

Management monitors the forecasts for the Company's liquidity reserves based on estimated cash flows. The Company has credit lines that offer additional support to its liquidity position. Liquidity risk has increased over the past two years, due mainly to the following circumstances:

- the failure to secure financing by the main financial institutions in the bank pool and the restriction on existing credit lines;
- the need to pledge cash or provide security deposits to guarantee fulfilment of projects due to the inability to provide guarantees; and
- the cost overruns on the Vuelta de Obligado project, and the costs of ongoing litigation over the Roy Hill project, which resulted in exceptional use of working capital.

At the date of authorisation for issue of the accompanying financial statements, the Company is arranging a debt restructuring with the main financial institutions. The negotiations envisage maintaining sustainable debt of around €85 million and the conversion of another tranche into convertible shares and/or options. The parties are also negotiating access to a new, additional line of funding of €25 million and bank guarantees for new projects for up to €100 million. Talks with the banks are proceeding well and to schedule, although a potential agreement is contingent on the Company carrying out a capital increase.

(€ thousand)

Accordingly, the Company has engaged a securities agency to evaluate interest and find prospective investors in a capital increase of up to €125 million. The current outlook is for a positive outcome regarding the capital increase. Both measures will enable the Company to strengthen its equity structure, addressing the cause for dissolution and providing the necessary financial soundness to continue its normal course of business, as outlined in the current business plan. To illustrate the support of the financial institutions, on 16 January 2018, a new extension of the standstill agreement was signed, with maximum maturity of 15 April 2018 (Note 33).

In addition, to strengthen its liquidity, the Company is exploring, together with its advisors, alternative measures to improve liquidity in the short and medium term, include disposing of non-core assets, and carrying out an organisational streamlining. As part of these measures, on 27 February 2018, the Vía de los Poblados and the Las Rozas buildings were sold, reducing borrowings by €21 million and leaving cash of €7 million (Notes 5 and 33).

	2017	**2016**
Borrowings and derivatives (Notes 5, 12 and 18)	(343,125)	(361,683)
Less: Cash and cash equivalents (Note 14)	58,896	65,226
Net cash position	(284,229)	(296,457)
Undrawn credit lines (Note 18)	156	925
Total liquidity reserves	**(284,073)**	**(295,532)**

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/net cash position divided by total capital. Net debt is calculated as total borrowings (including non-current and current borrowings, as shown in the balance sheet), less cash and cash equivalents. Total capital is calculated as equity, as shown in the financial statements, plus net debt.

The Company's strategy is to maintain a gearing ratio of less than one. The gearing ratios at 31 December 2017 and 2016 were as follows:

	€ thousand	
	2017	**2016**
Borrowings and derivatives (Notes 5, 12 and 18)	(343,125)	(361,683)
Less: Cash and cash equivalents	58,896	65,226
Net cash position	(284,229)	(296,457)
Equity	(181,148)	56,986
% financial debt and derivatives/equity	**(189.42%)**	**634.69%**
% net cash position/equity	**(156.90%)**	**520.23%**

4.3 Fair value estimation

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

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

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

4.4 Derivative financial instruments and hedging activities

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

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

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

a) Fair value hedge

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

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

b) Cash flow hedges

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

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

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

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

c) Derivatives not qualifying for hedge accounting

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

5. Assets and liabilities classified as held for sale

Breakdown of non-current assets held for sale:

	€ thousand	
	2017	2016
Property, plant and equipment	27,395	-
Net carrying amount	**27,395**	**-**

In 2017, under the scope of the non-core asset disposal plan and having complied with the requirements in prevailing accounting regulations, the Vía de los Poblados office building in Madrid acquired on 29 May 2014 and the office building in Las Rozas were reclassified to non-current assets held for sale. The net amount reflects the selling price less the costs of disposal, resulting in impairment of the assets of €3,915 thousand.

Borrowings related to assets classified as held for sale amounting to €20,861 thousand related entirely to the leasing arrangement related to the Vía de los Poblados building. The building was acquired on 29 May 2014 and the lease has a term of 13 years with a one-year grace period as from the date of acquisition. The applicable interest rate is 3.3% (2016: 3.3%).

The debt is included in the standstill agreement entered into with the financial institutions (Note 18).

On 27 February 2018, the Via de los Poblados and Las Rozas buildings were sold (Note 33) for the same amounts included in this note. The related lease was cancelled, resulting in a reduction in borrowings of €20,861 thousand.

6. Intangible assets

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

	€000		
	Computer software	Other assets in progress	Total
Balance at 1 January 2016	**5,842**	**3,223**	**9,065**
Cost	9,117	3,223	12,340
Accumulated amortisation	(3,275)	-	(3,275)
Carrying amount	**5,842**	**3,223**	**9,065**
Additions	7,325	146	7,471
Other movements	3,223	(3,223)	-
Disposals	(1,454)	-	(1,454)
Amortisation	(2)	-	(2)
Balance at 31 December 2016	**14,934**	**146**	**15,080**
Cost	19,665	146	19,811
Accumulated amortisation	(4,731)	-	(4,731)
Carrying amount	**14,934**	**146**	**15,080**
Balance at 1 January 2017	**14,934**	**146**	**15,080**
Cost	19,665	146	19,811
Accumulated amortisation	(4,731)	-	(4,731)
Carrying amount	**14,934**	**146**	**15,080**
Additions	51	315	366
Other movements	232	(232)	-
Amortisation	(2,300)	-	(2,300)
Other depreciation movements	-	-	-
Balance at 31 December 2017	**12,917**	**229**	**13,146**
Cost	19,948	229	20,177
Accumulated amortisation	(7,031)	-	(7,031)
Carrying amount	**12,917**	**229**	**13,146**

a) Fully amortised intangible assets

At 31 December 2017, there were fully amortised intangible assets still in use with an accounting cost of €2,889 thousand (2016: €2,640 thousand).

b) 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 2016	**45,148**	**974**	**2,770**	**1,290**	**-**	**50,182**
Cost	47,141	1,449	6,070	5,331	-	59,991
Accumulated depreciation	(1,993)	(475)	(3,300)	(4,041)	-	(9,809)
Carrying amount	**45,148**	**974**	**2,770**	**1,290**	**-**	**50,182**
Additions	1,311	24	269	213	-	1,817
Transfers					-	
Depreciation	(614)	(55)	(333)	(611)	-	(1,613)
Other depreciation movements	6	-	-	-	-	6
Balance at 31 December 2016	**45,851**	**943**	**2,706**	**892**	**-**	**50,392**
Cost	48,452	1,473	6,339	5,544	-	61,808
Accumulated depreciation	(2,601)	(530)	(3,633)	(4,652)	-	(11,416)
Carrying amount	**45,851**	**943**	**2,706**	**892**	**-**	**50,392**
Balance at 1 January 2017	**45,851**	**943**	**2,706**	**892**	**-**	**50,392**
Cost	48,452	1,473	6,339	5,544		61,808
Accumulated depreciation	(2,601)	(530)	(3,633)	(4,652)	-	(11,416)
Carrying amount	**45,851**	**943**	**2,706**	**892**	**-**	**50,392**
Additions	-	-	20	28	-	48
Disposals	-	(1,354)	(49)	(20)	-	(1,423)
Transfers	(32,263)	-	(3)	(33)	-	(32,299)
Depreciation	(686)	(46)	(334)	(425)	-	(1,491)
Disposals	-	479	43	8	-	530
Other depreciation movements	935	-	(14)	59	-	980
Balance at 31 December 2017	**13,837**	**22**	**2,369**	**509**	**-**	**16,737**
Cost	16,189	119	6,307	5,519	-	28,134
Accumulated depreciation	(2,352)	(97)	(3,938)	(5,010)	-	(11,397)
Carrying amount	**13,837**	**22**	**2,369**	**509**	**-**	**16,737**

a) Additions and transfers

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

Additions in 2016 related mainly to completion of upgrades to the building in Madrid.

b) Impairment losses

There were no significant impairment losses or reversals thereof for any assets in 2017 or 2016.

c) Subsidised assets

The net carrying amount of subsidised assets at 31 December was €13,695 thousand (2016: €13,851 thousand).

d) Fully depreciated assets

At 31 December 2017, there were fully depreciated buildings with an original cost of €266 thousand (2016: €266 thousand) still in use. The cost of the rest of the fully depreciated items of property, plant and equipment still in use amounted to €4,359 thousand (2016: €4,396 thousand).

e) Assets held under finance lease

"Land and buildings" includes the following amounts where the Company is a lessee under a finance lease:

	€ thousand	
	2017	**2016**
Cost-capitalised finance leases	-	32,266
Accumulated depreciation	-	(547)
Carrying amount	**-**	**31,719**

These amounts in 2016 included the leasing for the acquisition of the new building in Madrid which, as described in paragraph a), was reclassified in 2017 to non-current assets held for sale.

f) Assets held under operating lease

The income statement included under "Operating expenses" operating lease expenses amounting to €1,201 thousand (2016: €935 thousand).

g) 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.

8. Investment properties

	€ thousand	
	2017	2016
Land	8,618	9,279
Buildings	5,262	7,547
	13,880	**16,826**

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 2016	**9,279**	**7,802**	**17,081**
Cost	9,755	12,058	21,813
Accumulated depreciation	-	(4,256)	(4,256)
Depreciation	(476)	-	(476)
Carrying amount	**9,279**	**7,802**	**17,081**
Depreciation	-	(255)	(255)
Balance at 31 December 2016	**9,279**	**7,547**	**16,826**
Cost	9,755	12,058	21,813
Accumulated depreciation	-	(4,511)	(4,511)
Depreciation	(476)	-	(476)
Carrying amount	**9,279**	**7,547**	**16,826**
Balance at 1 January 2017	**9,279**	**7,547**	**16,826**
Cost	9,755	12,058	21,813
Accumulated depreciation	-	(4,511)	(4,511)
Depreciation	(476)	-	(476)
Carrying amount	**9,279**	**7,547**	**16,826**
Transfers	(657)	(2,629)	(3,286)
Disposals	(4)		(4)
Depreciation	-	(254)	(254)
Other depreciation movements	-	598	598
Balance at 31 December 2017	**8,618**	**5,262**	**13,880**
Cost	9,094	9,429	18,523
Accumulated depreciation		(4,167)	(4,167)
Depreciation	(476)	-	(476)
Carrying amount	**8,618**	**5,262**	**13,880**

In 2017, under the scope of the non-core asset disposal plan and having complied with the requirements in prevailing accounting regulations, the office building in Las Rozas Madrid) was reclassified to non-current assets held for sale for a net carrying amount of €2,688 thousand (Note 5).

The main investment properties relate to land located mostly in Langreo, Oviedo and Gijón (Asturias), of which €0.4 million (2016: €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 (2016: €2.1 million), Oviedo amounting to €8.1 million (2016: €8.2 million), Gijón amounting to €3.3 million (2016: €3.4 million) and Madrid amounting to €0 since it was reclassified to non-current assets held for sale (2016: €2.7 million).

At year-end 2017, the fair value of the investments were appraised by an independent, expert valuer at €24,749 thousand (2016: €29,124 thousand).

a) Assets held under finance lease:

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

	€ thousand	
	2017	**2016**
Cost-capitalised finance leases	9,937	9,937
Accumulated depreciation	(1,778)	(1,611)
Carrying amount	**8,159**	**8,326**

These amounts relate to the land and buildings acquired under the finance lease arranged on 2 August 2007 between Santander de Leasing, S.A., E.S.C. (lessor) and Duro Felguera, S.A. (lessee) relating to various properties owned by the former (offices in c/ Rodríguez Sampedro, 5, in Gijón, and c/ González Besada, 25, c/ Marqués de Santa Cruz, 14 and c/ Santa Susana, 20, in Oviedo), which until then were leased to Duro Felguera, S.A. from Hispamer Renting, S.A. (former owner) under an operating lease. At the date of expiry of that finance lease, Duro Felguera, S.A. intends to exercise the €1,448 thousand purchase option.

In 2017, operating expenses related to these investments amounting to €116 thousand were recognised in the consolidated income statement (2016: €123 thousand).

b) Assets held under operating lease

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

	€ thousand	
	2017	**2016**
Cost-capitalised operating leases	5,215	5,215
Accumulated depreciation	(845)	(758)
Depreciation for the year	(88)	(87)
Carrying amount	**4,282**	**4,370**

Contingent rents recognised as income the income statement for the year amounted to €0 thousand (2016: €0). The contract provides for a grace period of three years.

c) Insurance

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

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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Loans and receivables (Note 11)	-	-	102	170	102	170
Available-for-sale financial assets at fair value	5,480	5,995	-	-	5,480	5,995
	5,480	**5,995**	**102**	**170**	**5,582**	**6,165**

	€ thousand					
	Current financial assets					
	Equity instruments		Loans, derivatives and other financial assets		TOTAL	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Loans and receivables (Note 11)	-	-	367,578	498,601	367,578	498,601
Derivatives	-	-	1,052	-	1,052	-
Cash and cash equivalents (Note 14)	-	-	58,896	65,226	58,896	65,226
	-	**-**	**427,526**	**563,827**	**427,526**	**563,827**

Loans and receivables do not include balances with Public Administrations.

Available-for-sale financial assets include mainly the stake in Ausenco, Ltd for €5,205 thousand (2016: €5,931 thousand) over which the Company does not have control. In 2017, changes in the fair value of these financial assets amounting to a negative €726 thousand were recognised (2016: positive €1,765 thousand).

	€ thousand					
	Non-current financial liabilities					
	Bank borrowings		Derivatives and other		TOTAL	
	2017	2016	2017	2016	2017	2016
Debts and payables (Note 18)	64,911	260,688	3,137	4,018	68,048	264,706
Derivatives (Note 12)	-	-	-	903	-	903
	64,911	**260,688**	**3,137**	**4,921**	**68,048**	**265,609**

	€ thousand					
	Current financial liabilities					
	Bank borrowings		Derivatives and other		TOTAL	
	2017	2016	2017	2016	2017	2016
Debts and payables (Notes 5 and 18)	274,648	90,107	315,307	333,095	589,955	423,202
Derivatives (Note 12)	-	-	-	3,850	-	3,850
	274,648	**90,107**	**315,307**	**336,945**	**589,955**	**427,052**

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:

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

2016	€ thousand					
	Financial assets					
	2017	2018	2019	2020	Subsequent years	Total
Loans and receivables (Note 11)	498,601	114	28	25	3	498,771
Cash and cash equivalents (Note 14)	65,226	-	-	-	-	65,226
	563,827	**114**	**28**	**25**	**3**	**563,997**

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

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

2016	€ thousand Financial liabilities					
	2017	2018	2019	2020	Subsequent years	Total
Finance lease payables (Note 18)	3,779	1,852	1,914	1,978	14,366	23,889
Bank borrowings (Note 18)	86,328	77,622	117,849	45,083	24	326,906
Derivatives (Note 12)	3,850	857	-	-	46	4,753
Other financial liabilities (Note 18)	333,095	836	870	902	1,410	337,113
	427,052	**81,167**	**120,633**	**47,963**	**15,846**	**692,661**

9.3 Credit quality of financial assets

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

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

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

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

Investments in group companies and associates

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

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

	€ thousand			
2016	**Opening balance**	**Additions and allowances**	**Disposals**	**Closing balance**
Investments in group companies				
Investments in group companies	110,477	55,780	(32)	166,225
Impairment of investments in group companies	(35,215)	(20,973)	32	(56,156)
	75,262			110,069
Investments in associates				
Investments in associates	2,780	-	-	2,780
Uncalled capital on investments in associates	(4)	-	-	(4)
Impairment of investments in associates	(950)	(348)	-	(1,298)
	1,826			1,478
	77,088			**111,547**

Additions of investments in group companies in 2017 related to capital contributions to Felguera Gruas India, Pvt and equity holder contributions to offset losses at Núcleo de Comunicaciones y Control, S.L. In 2016, they related mainly to capital contributions to DF Mompresa, S.A.U., Núcleo de Comunicaciones y Control, S.L. and Felguera Gruas India, Pvt.

Disposals in 2017 related to the liquidation of Duro Felguera UK Ltd. and Eolian Park Management, S.A.

In 2017, impairment of the most significant investments related to Núcleo de Comunicaciones y Control, S.L., for €25,407 thousand.

The investment in Estudios e Ingeniería Aplicada XXI, S.A. was transferred to available-for-sale financial assets in 2017.

(€ thousand)

The following table presents information on group companies and associates:

2017

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

(€ thousand)

2017

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

(€ thousand)

2017

Name and legal structure	**Activity and location**	**% shareholding**	
		Direct, %	**Indirect, %**
Group:			
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%

2017

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

(€ thousand)

2016

Name and legal structure	Activity and location	% shareholding	
		Direct, %	Indirect, %
Group:			
Duro Felguera Investment, S.A.U.	Investment services (La Felguera)	100%	-
Duro Felguera Rail, S.A.	Manufacture and assembly of railway equipment (Mieres)	-	100%
Duro Felguera Calderería Pesada, S.A.U.	Pressure vessels and heavy boiler-making (Gijón)	-	100%
Pontonas del Musel, S.A.	Shipping business (Gijón)	-	70%
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 Oil&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.	Promotion, management, development, maintenance, operation, exploitation and in general any kind of activity related to energy production through the full or partial use of renewable primary energy sources (Gijón).	100%	-
Núcleo de Comunicaciones y Control, S.L. U.	Engineering projects, including necessary civil engineering works (Madrid)	100%	-
Epicom, S.A.	Research, development, manufacture, marketing, technical assistance, study and consulting in relation to equipment, electronic systems and software (Madrid)	100%	-
Felguera I.H.I., S.A.	Fuel and gas storage equipment (Madrid)	60%	-
Felguera Tecnología de la Información, S.A.	Development of business management software (Llanera).	60%	-
Eólica del Principado, S.A.U.	Renewable energy (Oviedo)	60%	-

(€ thousand)

2016

Name and legal structure	Activity and location	% shareholding Direct, %	Indirect, %
Group:			
Turbogeneradores del Perú, S.A.C.	Construction and assembly of industrial projects (Peru)	90%	10%
Duro Felguera Argentina, S.A.	Construction, maintenance and supply of equipment for power stations (Argentina).	-	100%
Opemasa Andina Ltda	Construction, maintenance and supply of equipment for power stations (Chile)	-	100%
Mopre Montajes de Precisión de Venezuela, S.A.	Assembly of turbo-generators and auxiliary equipment in power stations (Venezuela).	-	100%
Turbogeneradores de Venezuela, C.A.	Construction and assembly of industrial projects (Venezuela)	-	100%
Equipamientos Construcciones y Montajes, S.A. de C.V.	Construction and assembly of industrial projects (Mexico)	100%	-
Proyectos e Ingeniería Pycor, S.A. de C.V.	Engineering (Mexico)	99.8%	0.2%
Felguera Diavaz Proyectos México, S.A. de C.V.	Wind energy and cogeneration (Mexico)	50%	-
Duro Felguera UK Limited	Engineering, supplies and civil works for energy projects (UK).	100%	-
Felguera Gruas India Private Limited	Port terminals (India).	99.65%	0.35%
Duro Felguera Industrial Projects Consulting Co.Ltd	Industrial engineering project consulting (China).	100%	-
Eolian Park Management, S.A.	Renewable energy (Romania)	80%	-
PT Duro Felguera Indonesia	Engineering, supply and construction projects for the mining, energy and industrial sectors (Indonesia).	95%	-
Duro Felguera Australia Pty Lted.	Capital goods engineering (Australia)	100%	-
Duro Felguera Panamá, S.A.	Engineering, supplies and civil works for energy projects (Panama).	100%	
Duro Felguera Saudí LLC	Construction of electricity generation buildings and plants (Saudi Arabia).	95%	5%
Duro Felguera Gulf Contracting LLC	Construction of electricity generation plants (Dubai).	100%	-

(€ thousand)

2016

Name and legal structure	Activity and location	% shareholding Direct, %	% shareholding Indirect, %
Group:			
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%
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%

2016

Name and legal structure	Activity and location	% shareholding Direct, %	% shareholding Indirect, %
Associates:			
Zoreda Internacional, S.A. (4)	Environment (Gijón)	32%	8%
Estudios e Ingeniería Aplicada XXI, S.A.	Engineering and consulting services (Bilbao)	35%	-
Sociedad de Servicios Energéticos Iberoamericanos	Assembly and maintenance of electricity generation plants (Colombia)	25%	-
Secicar S.A.	Fuel sales (Granada)	-	17.69%
Conaid Company S.R.L..	Power generation, transmission and distribution (Romania)	47%	-
MDF Tecnogás, S.A.	Research, manufacture and marketing of all types of fuels and products from biomass and waste, and electricity generation under the Special Regime (Madrid)	50%	-

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

2017

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

2017

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	1,244	122	(3,643)	(3,716)	-
Duro Felguera Calderería Pesada, S.A.U.	9,843	4,761	1,392	(6,121)	(8,286)	-
Duro Felguera Argentina, S.A.	39,499	2,465	(37,010)	2,055	(5,231)	-
Duro Felguera Rail, S.A.	7,997	3,809	1,305	(1,327)	(2,306)	-
Felguera IHI Canada Inc	-	-	(18)	(13)	40	
Opemasa Andina, Ltda (7)	1	1,791	13	(287)	(4,850)	-
Turbogeneradores de Venezuela C.A.	475	(562)	(1,037)	265	(62)	-
Mopre Montajes de Precisión Venezuela, C.A.	368	(314)	(1)	(5)	(55)	-
Operación y Mantenimiento Solar Power, S.L.	10	216	-	-	-	-

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

DURO FELGUERA, S.A.

NOTE TO THE 2017 FINANCIAL STATEMENTS

(€ thousand)

2017

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

(1) Mainly interim dividends paid during the year 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.

2016

	€ 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	(196)	2,357	(3,546)	2,661
Felguera Tecnología de la Información, S.A (7)	90	1,029	148	48	37	176
Duro Felguera Investment, S.A.U.	23,468	11,737	2,855	(195)	(188)	37,872
Felguera I.H.I., S.A. (3)	2,103	24,592	(1,176)	(1,788)	2,040	1,566
Duro Felguera Operación y Montajes, S.A.U. (3)	120	12,535	(713)	5,902	3,075	10,485
Equipamientos Construcciones y Montajes, S.A. de C.V	166	4,530	(474)	(17)	(42)	-
Duro Felguera Oil & Gas, S.A.U.	3,000	-	(1,055)	360	360	2,305
Turbogeneradores del Perú, S.A.C.	9	1,139	105	53	158	8
Eólica del Principado, S.A.U (7)	60	-	(15)	(9)	(9)	22
PT Duro Felguera Indonesia	477	(65)	45	(402)	(402)	52
Eolian Park Management, S.A (7)	500	32	(567)	-	(2)	-
Felguera Diavaz Proyectos México, S.A.	3	-	(7)	-	-	-
Duro Felguera Do Brasil	91	6,116	(3,273)	(867)	(28)	91
DF Ingeniería Técnica de Proyectos y Sistemas, S.A.U (7)	80	381	(45)	43	32	83
Núcleo de Comunicaciones y Control S.L.U. (3)	4,000	(448)	1,323	(2,739)	(2,101)	23,228
Duro Felguera Industrial Projects (7)	140	-	14	12	13	140
Duro Felguera UK Limited	24	1	(14,565)	(22,162)	(22,158)	-
Duro Felguera Australia Pty Ltd.	-	11,098	805	(6,126)	(966)	-
Epicom, S.A.	217	4,243	-	1,386	1,132	4,636
Duro Felguera Saudí LLC	237	-	-	-	-	225
Duro Felguera Gulf Contracting LLC	30	(283)	(28)	(241)	(245)	-
DF USA, LLC	167	-	(28)	(157)	(157)	-
Dunor Energía, S.A.P.I. de C.V.	1	-	43	4,613	1,141	1
Felguera Gruas India Private Limited	38,607	(9,597)	(343)	(273)	(2,056)	26,518
Proyectos e Ingeniería Pycor, S.A. de CV	481	77	(635)	29	7	-

DURO FELGUERA, S.A.

NOTE TO THE 2017 FINANCIAL STATEMENTS

(€ thousand)

2016

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	1,756	135	(605)	(512)	-
Duro Felguera Calderería Pesada, S.A.U.	9,843	5,999	132	3,170	1,762	-
Duro Felguera Argentina, S.A.	39,499	2,465	(32,653)	8,269	(12,737)	-
Duro Felguera Rail, S.A.	7,997	4,178	1,522	1,025	831	-
Pontonas del Musel, S.A (7)	510	174	-	15	12	-
Opemasa Andina, Ltda (7)	1	822	73	(945)	969	-
Turbogeneradores de Venezuela C.A.	475	(562)	(823)	(244)	(343)	-
Mopre Montajes de Precisión Venezuela, C.A.	368	(220)	-	31	(94)	-
Operación y Mantenimiento Solar Power, S.L.	10	3,108	(171)	-	3	-

(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.

2016

	€ thousand					
	Equity					
Company	Capital	Reserves	Other items (1)	Operating profit/(loss)	Profit/(loss) for the year	Carrying amount of the investment
Associates:						
Ingeniería EIA XXI, S.A. (6)	456	5,835	(2,116)	-	-	1,461
Zoreda Internacional, S.A.	N/A	N/A	N/A	N/A	N/A	16
MDF Tecnogás S.A. (7)	N/A	N/A	N/A	N/A	N/A	-
Conaid Company S.R.L. (5)	N/A	N/A	N/A	N/A	N/A	-
Sociedad de Servicios Energéticos Iberoamericanos, S.A. (4)	N/A	N/A	N/A	N/A	N/A	-

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

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

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

The Company has no contingencies in relation to associates.

11. Loans and receivables

	€ thousand	
	2017	**2016**
Non-current loans and receivables:		
- Loans to employees	85	155
- Other financial assets	17	15
	102	**170**
Current loans and receivables:		
- Trade receivables	126,940	135,481
- Completed work pending certification	71,104	75,751
- Provision for impairment	(52,401)	(10,606)
- Loans to group companies and associates (Note 31)	170,908	240,289
- Group companies (Note 31)	25,085	21,815
- Completed work pending certification, group (Note 31)	2,939	15,673
- Other receivables	19,205	18,258
- Loans to employees	101	108
- Current tax assets (1)	108	276
- Other receivables from Public Administrations (1)	9,781	13,774
- Loans to companies	14	14
- Debt securities	-	68
- Other financial assets	3,683	1,750
	377,467	**512,651**
	377,569	**512,821**

(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	
	2017	**2016**
Euro	143,127	303,741
US dollar	137,579	163,514
Algerian dinar	28,129	18,465
Mexican peso	1,604	-
Venezuelan bolivar	13	-
Australian dollar	-	12,463
Indian rupee	66,551	11,640
Peruvian nuevo sol	446	-
Other currencies	120	2,998
	377,569	**512,821**

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

	€ thousand	
	2017	**2016**
Opening balance	**(10,606)**	**(1,304)**
Provision for impairment of receivables	(41,829)	(9,302)
Reversals	34	-
Closing balance	**(52,401)**	**(10,606)**

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.

The total amount of the costs incurred and profits recognised (less losses recognised) for all current contracts at the reporting date were €1,787,370 thousand (2016: €1,916,301 thousand) and €347,294 thousand (2016: €365,138 thousand), respectively. The Company does not record any customer withholdings.

At 31 December 2017, in addition to receivables provisioned, receivables amounting to €38,871 thousand had fallen due (2016: €116,767 thousand). Balances less than six months past due are not impaired, as these accounts correspond to customers for whom there is no recent history of default. Balance more than six months past due, which relate to projects in progress, are also not considered to be impaired as they are covered by prepayments not settled and recognised under “Trade and other payables” (Note 18) for €32.7 million (2016: €36 million).

The most important past-due balance relates to the “Termocentro” project being carried out in Venezuela, amounting to €32,028 thousand (2016: €84,001 thousand). In accordance with applicable accounting regulations, the Company assessed the recoverability of this amount based on the financial position of the Venezuelan government (which worsened in the fourth quarter of 2017), the quoted price of Venezuelan government bonds, the risk of default by the country and the absence of estimates of receipts. As a result of this analysis, the Group recognised an impairment of receivables for €41,829 thousand.

The ageing analysis of these receivables is as follows:

	€ thousand	
	2017	**2016**
Up to 3 months	2,743	6,947
Between 3 and 6 months	861	3,069
Between 6 months and 1 year	5,496	7,398
More than 1 year	29,771	99,353
	38,871	**116,767**

12. Derivative financial instruments and hedging activities

	€ thousand			
	2017		**2016**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps	-	-	-	46
Other	1,052	-	-	4,707
Total	**1,052**	**-**	**-**	**4,753**
Less non-current portion:	-	-	-	(903)
Current portion	**1,052**	**-**	**-**	**3,850**

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 in projects involving different collection and payment currencies. At 31 December 2017, the Company had arranged exchange insurance for a notional amount of USD 20,000 thousand (2016: USD 59,825 thousand) expiring 31 January 2018 (2016: 17 January 2017 and 31 January 2018).

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

	€ thousand	
	2017	**2016**
Balance at 1 January	**(1,990)**	**203**
Net variation due to customer invoicing	-	(8)
Net variation due to cash balances	(222)	(162)
Net variation due to supplier invoicing	49	113
Transfer to profit or loss as exchange differences	2,952	(2,848)
Other	-	712
Balance at 31 December	**789**	**(1,990)**

13. Inventories

The entire balance of inventories at 31 December 2017 and 2016 relates to advance payments to suppliers for execution of projects in progress.

14. Cash and cash equivalents

	€ thousand	
	2017	2016
Cash	35,505	18,009
Other cash equivalents	23,391	47,217
	58,896	**65,226**

Total cash and cash equivalents is included in the statement of cash flows. At 31 December 2017, an amount of €5,060 thousand backed the issue of guarantees for projects and was restricted (2016: €31,745 thousand).

“Other cash equivalents” includes mainly deposits and accounts bearing interest in euros and US dollars maturing within three months. Interest earned on these deposits and accounts in euros and in US dollar fluctuated between 0.05% and 0.20% and 0.10% and 0.25%, respectively (2016: between 0.05% and 0.3%, and 0.17% and 1%, respectively).

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

	2017	2016
Euro	22,399	27,062
US dollar	26,032	36,415
Algerian dinar	5,811	-
United Arab Emirates dirham	4,606	-
Other	48	1,749
	58,896	**65,226**

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

a) Capital

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

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

Shareholder	**% direct or indirect shareholding**	
	2017	**2016**
Inversiones Somió, S.L.	24.39%	24.39%
Inversiones Río Magdalena, S.L.	10.03%	10.03%
Onchena, S.L.	5.06%	5.05%

The indirect owner of shares held by Inversiones Somió, S.L. is Juan Gonzalo Álvarez Arrojo.

The indirect owner of shares held by Río Magdalena, S.L. is Herencia Yacente de D. Ramiro Arias López.

The indirect owner of shares held by Onchena, S.L. is Carmen Ybarra Careaga.

b) Share premium

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

c) Treasury shares

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

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

d) Reserves

	€ thousand	
	2017	**2016**
Legal and statutory reserves		
- Legal reserve	16,000	16,000
	16,000	**16,000**
Other reserves:		
- Voluntary reserves	144,490	146,675
- Revaluation reserve RD-Law 7/96	958	958
- Reserve for adjustments to RD-1514/2007	(81)	(81)
- Differences on translation of capital to euros	75	75
- Other reserves	3	3
- Reserves for business combinations	(1,545)	(1,545)
	143,900	**146,085**
	159,900	**162,085**

e) Legal reserve

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

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

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

After the three-year period during which the tax authorities may inspect the “Revaluation reserve” account balance, this reserve may be used, free of tax, to offset prior, current or future losses, or to increase capital. From 1 January 2008, it may be allocated to unrestricted reserves, provided that the monetary gain has been realised. The gain is understood to be realised in proportion to the depreciation charge recognised or when the revalued assets have been disposed of or otherwise derecognised. Were the balance of this account used for purposes other than those prescribed by Royal Decree-Law 7/1996, it would become liable to tax.

g) Prior periods' profit and loss

	€ thousand	
	2017	**2016**
Retained earnings	4,397	4,397
Prior periods’ losses	(108,488)	(85,482)
	(104,091)	**(81,085)**

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	
	2017	**2016**
Basis of distribution		
Profit/(loss)	(227,522)	(23,006)
	(227,522)	**(23,006)**

	€ thousand	
	2017	**2016**
Distribution		
Voluntary reserves	-	-
Dividends	-	-
Prior periods’ losses	(227,522)	(23,006)
Retained earnings	-	-
	(227,522)	**(23,006)**

h.2) Interim dividend

No interim dividend was paid in 2017 or 2016.

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 2017 or 2016.

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 2017, €127 thousand were transferred to the income statement (2016: €125 thousand).

18. Debts and payables

	€ thousand	
	2017	**2016**
Non-current debts and payables:		
- Bank borrowings	64,911	240,578
- Finance lease payables	-	20,110
- Other loans	3,137	4,018
	68,048	**264,706**
Current debts and payables:		
- Bank borrowings	252,262	86,328
- Finance lease payables	1,525	3,779
- Suppliers	168,062	157,148
- Suppliers, group companies and associates (Note 31)	30,938	75,683
- Other payables	10,046	6,913
- Current payables to group companies and associates (Note 31)	46,904	34,014
- Other financial liabilities	1,481	2,117
- Salaries payable	2,940	3,604
- Current tax liability (1)	763	3,023
- Other payables to Public Administrations (1)	5,386	5,166
- Advances from customers	54,936	53,616
	575,243	**431,391**
	643,291	**696,097**

(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 €257 thousand (2016: €255 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	
	2017	**2016**	**2017**	**2016**
- Bank loans	64,911	240,578	64,911	240,578
- Finance lease payables	-	20,110	-	20,110
- Other loans	3,137	4,018	3,137	4,018
	68,048	**264,706**	**68,048**	**264,706**

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% (2016: 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	
	2017	**2016**
Euro	597,363	635,435
US dollars	20,034	41,758
Pound sterling	689	122
Venezuelan bolivar	30	123
Algerian dinar	22,496	12,849
Peruvian nuevo sol	74	2,861
Mexican peso	288	2,501
Indian rupee	290	279
Romanian new leu	1,995	-
Other	32	169
	643,291	**696,097**

The Company has the following undrawn credit and discounting facilities:

	€ thousand	
	2017	**2016**
Floating rate:		
- Expiring within one year	67	465
- Expiring beyond one year	89	460
	156	**925**

(€ thousand)

a) Bank loans

	Entity	Amount	Grant date	Maturity	Grace period	Depreciation
Loan 1	Caixa	25,000	10/26/2015	10/26/2020	2 years	Annual
Loan 2	Rural	10,000	10/27/2015	10/27/2020	2 years	Annual
Loan 3	Liberbank	25,000	10/30/2015	10/30/2020	2 years	Annual
Loan 4	Sabadell	30,000	10/26/2015	10/26/2020	2 years	Annual
Loan 5	Santander	55,000	3/17/2014	3/17/2019	-	Bullet
Loan 6	Santander	23,754	3/17/2014	3/17/2020	-	Annual
Loan 7	Bankia	25,000	10/22/2014	11/30/2021	-	Annual
Loan 8	Popular	48,543	2/3/2014	2/3/2019	3 years	Annual
Credit 1	Caixa	9,911	1/18/2013	1/29/2019	-	-
Credit 2	BBVA	4,964	7/31/2009	7/31/2018	-	-
Credit 3	Sabadell	9,975	10/5/2015	10/5/2017	-	-
Credit 4	Santander	34,994	7/24/2015	7/24/2019	-	-
Reverse factoring	BBVA	13,488	-	-	-	-
		315,629				

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

Bank borrowings at year-end also included accrued and unpaid interest and exchange insurance amounting to €1,544 thousand.

The remaining bank borrowings are mainly credit accounts maturing in 2018 and 2019.

On 26 October 2017, the Company confirmed the extension of the standstill agreement to 15 January 2018 with the main institutions in the bank pool. The total amount of debt subject to the standstill agreement includes the amount of finance leases (Notes 5 and 18.b)). During this period, the Company is not obliged to make principal payments at maturity of the debt covered by the extension. Nevertheless, the Company has classified as current (excluding the finance leases) the entire amount of the debt not settled at maturity in 2017 and covered by the agreement. The non-current amount relates to loans and credits without non-payments at maturity.

On 16 January 2018, a new extension of the standstill agreement was signed, with maximum maturity of 15 April 2018 (Note 33).

b) Finance lease payables

"Finance lease liabilities" includes mainly an amount of €1,525 thousand (2016: €21,902 thousand) to the building indicated in Note 8 (2016: €1,987 thousand). In 2016, the balance also included the amount related to the building in Madrid reclassified to non-current assets held (Note 5).

The finance lease liabilities are effectively secured if the rights to the leased asset revert to the lessor in the event of default.

Gross finance lease liabilities – minimum lease payments:

	€ thousand	
	2017	**2016**
Within one year	1,525	4,472
After one year but not more than five years	-	9,923
More than 5 years	-	13,437
Future finance charges on finance lease liabilities	-	(3,943)
Present value of finance lease liabilities	**1,525**	**23,889**

The present value of finance lease liabilities is as follows:

	€ thousand	
	2017	**2016**
Within one year	1,525	3,779
After one year but not more than five years	-	7,787
More than 5 years	-	12,323
	1,525	**23,889**

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 (2016: €11,306 thousand). The effect of discounting is recognised in "Capital grants".

The present value of these loans at 31 December 2017 was €3,137 thousand (2016: €4,018 thousand).

d) Other current financial liabilities

This item mainly 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	
	2017	2016
– Average supplier payment period	209.94	139.17
– Ratio of transactions paid	185.99	93.61
– Ratio of transactions outstanding	267.84	247.76

	€ thousand	
	2017	2016
– Total payments made	198,686	193,369
– Total payments outstanding	82,211	81,147

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	
	2017	2016
Balance sheet obligations for:		
-Coal vouchers	109	114
-Length-of-service awards and other employee commitments	492	425
	601	**539**

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

	€ thousand	
	2017	2016
Present value of the obligations assumed	601	539
Liability in the balance sheet	**601**	**539**

a) Coal vouchers

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

	€ thousand	
	2017	2016
Opening balance	**114**	**112**
Benefits paid	(9)	(9)
Provisions	4	11
Reversals	-	-
Closing balance	**109**	**114**

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	
	2017	2016
Opening balance	**425**	**440**
Current service cost	200	226
Decreases	(133)	(241)
Closing balance	**492**	**425**

20. Provisions for liabilities and charges and other trade provisions

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

	€ thousand			
2017	**Provisions for liabilities**	**Provision for warranties**	**Other provisions**	**Total**
Opening balance	**38,259**	**17,495**	**10,087**	**65,841**
Provisions	66,931	3,855	14,929	85,715
Amounts reversed and used	(37,644)	(4,592)	(7,970)	(50,206)
Transfers	-	(59)	-	(59)
Closing balance	**67,546**	**16,699**	**17,046**	**101,291**

Analysis of total provisions:

	€ thousand	
	2017	2016
Non-current	67,546	38,259
Current	33,745	27,582
	101,291	**65,841**

“Provision for liabilities” includes mainly provisions recognised to cover negative equity of certain subsidiaries (Note 24). Of amounts reversed and used, for €36,728 thousand related to the provision for liabilities of Duro Felguera UK Ltd. and Eolian Park Management, S.A., which were liquidated in the year (Note 10).

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

"Other provisions" includes provisions recognised by the Company for losses, amounting to €13,913 thousand. At 31 December 2016, a provision for €1,402 thousand was recognised.

21. Deferred taxes

The breakdown of deferred taxes is as follows:

	€ thousand	
	2017	2016
Deferred tax assets:		
- Temporary differences	**4,728**	**42,825**
	4,728	42,825
Deferred tax liabilities:		
- Temporary differences	**(4,394)**	**(4,753)**
	(4,394)	(4,753)
Deferred taxes	**334**	**38,072**

	€ thousand	
	2017	2016
Deferred tax assets:		
- Non-current	4,728	41,606
- Current	-	1,219
	4,728	**42,825**
Deferred tax liabilities:		
- Non-current	(4,394)	(4,753)
	(4,394)	**(4,753)**
Deferred taxes	**334**	**38,072**

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

	€ thousand	
	2017	2016
Opening balance	**38,072**	**38,973**
Income statement charge (Note 22)	(33,554)	(2,060)
Tax charged directly to equity	(4,184)	1,159
Closing balance	**334**	**38,072**

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 2015	**215**	**9,349**	**30,449**	**4,371**	**44,384**
(Charged)/credited to the income statement	493	(2,970)	335	90	(2,052)
Charged directly to equity	-	-	-	493	493
Balance at 31 December 2016	**708**	**6,379**	**30,784**	**4,954**	**42,825**
(Charged)/credited to the income statement	(708)	(2,715)	(30,784)	133	(34,074)
Charged directly to equity	-	440	-	(4,463)	(4,023)
Balance at 31 December 2017	**-**	**4,104**	**-**	**624**	**4,728**

The Company did not recognise any deferred tax assets for tax losses or credits arising in 2017. In addition, in view of the situation described in Note 2.2, the Company reassessed the recovery of deferred tax assets taking into account the deferred tax assets and liabilities and the period of reversal, maintaining the deferred tax assets on the balance sheet up to the limit of the deferred liabilities with each taxable entity. Accordingly, the Company derecognised a total amount of €35,668 thousand, relating mainly to taxable income/(tax losses) and deductions. The other amounts derecognised, of €2,429 thousand, related to changes in the year.

The Spanish tax group had unused tax loss amounting to €104,014 thousand arising from prior years and €7,405 thousand generated in 2017 not recognised as tax assets.

For these tax losses, the limit for offset is indefinite in accordance with article 26 of Corporate Income Tax Law 27/2014, of 27 November.

	€ thousand			
Deferred tax liabilities	**Gains on transactions with non-current assets**	**Other**	**Subsidiaries, interest-free loans**	**Total**
Balance at 31 December 2015	**129**	**4,432**	**850**	**5,411**
Charged/(credited) to the income statement	-	8		8
Charged directly to equity	-	(635)	(31)	(666)
Balance at 31 December 2016	**129**	**3,805**	**819**	**4,753**
Charged/(credited) to the income statement	-	(519)	-	(519)
Charged directly to equity	-	160	-	160
Balance at 31 December 2017	**129**	**3,446**	**819**	**4,394**

22. Income tax and tax situation

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

2017 Income and expense for the year	€ thousand Income statement Increases	 Decreases	 Total
Net profit	-	(227,522)	(227,522)
Income tax	31,262	-	31,262
Permanent differences	186,893	(16,866)	170,027
Temporary differences:			
- arising in the year	19,491	-	19,491
- arising in prior years		(20,172)	(20,172)
Taxable income (tax loss)			(26,914)
Offset of tax loss carryforwards			-
			(26,914)

Income tax expense comprises:

	€ thousand 2017	 2016
Current tax	-	(1,403)
Foreign tax	2,042	3,643
Adjustment of prior year current tax	422	267
Adjusted of prior deferred tax (Note 21)	(2,480)	(817)
Tax credit (Note 21)	(28,771)	(2,103)
Deferred tax (Note 21)	(2,303)	2,604
Adjustment of tax rate (Note 21)	-	2,376
Other	(172)	(947)
	(31,262)	**(3,620)**

No tax losses or credits were recognised in the calculation of income tax for 2017. Tax losses arising in the year amounted to €26,914 thousand. The entire amount of unused tax losses and credits from prior years was derecognised.

Withholdings and payments on account amounted to €40 thousand (2016: €38 thousand).

Permanent differences are mainly generated as a result of the exclusion by the Company of income from branches and permanent establishments abroad, in accordance with the provisions of article 22 of Corporate Income Tax Law 27/2014, of 27 November, and the provisions of articles 13 and 15 of said Law in relation to impairment losses of investees.

The Company is parent of the tax group.

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

On 17 May 2017, Duro Felguera, S.A. received a proposal for settlement of income tax for €101 million, plus €22 million of late-payment interest. Moreover, the adjustment made from the inspection resulted in a reduction in tax losses for the consolidated Group of €27.5 million, and a reduction in unused tax credits of €2 million. These assessments were signed under protest. The settlement agreement is based primarily on the Taxation Authorities' discrepancies regarding the application by the Group of the exemption of foreign income obtained by temporary joint ventures operating abroad (specifically, UTE Termocentro), as provided for in article 50 of Legislative Royal Decree 4/2004, of 5 March, approving the Consolidated Income Tax Act in effect in the periods covering the tax inspections. The result of the inspection of other taxes was immaterial for the Company.

On 9 August 2017, an administrative appeal was filed with the Central Economic Administrative Court against the settlement agreement notified on 27 July 2017. In addition, on 15 February 2018, the Central Economic Administrative Court notified the Company that it could present allegations and evidence. It has up to one month to present its pleadings to the court.

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

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

Regarding the settlement agreements issued to Duro Felguera, S.A. for VAT and income tax - related party transactions, on 15 February 2018, the Central Economic Administrative Court notified the Company that it could present allegations and evidence. It has up to one month to present its pleadings to the court.

In addition, on 1 February 2018, the Spanish taxation authorities notified UTE TERMOCENTRO of a proposed resolution of sanction proceedings for €23.04 million. The sanction is based on the authorities' discrepancy regarding the taxable income charged by UTE Termocentro to its members. On 19 February 2018, an administrative appeal was filed with the Central Economic Administrative Court against this proposed sanction.

In the opinion of the Company's management and external tax advisors, it is unlikely that the amount of the assessments or the sanction will have to be paid. In this respect, management believes there are technical grounds supporting acceptance of all the criteria applied by the Group, which will most likely occur during the judicial review stage. The Company's opinion is predicated on its understanding that all the requirements were fulfilled for applying the exemption, and the fact that the criteria applied were not questioned with respect to the income from this UTE in the tax audit conducted in 2013, which was signed in agreement.

Accordingly, management considered that no liability should be recognised.

To date, the Company has not made any payments related to these proceedings. The taxation authorities agreed a suspension with the contribution of real estate collateral for the amounts owed from the settlement agreements of VAT, personal income-tax withholding and income tax - related party transactions. Regarding the liability from the proposal for settlement of income tax of €101 million plus €22 million of late-payment interest, the Company has requested suspension of enforcement of the settlement agreement contributing real estate collateral for €29 million and requesting partial waiver of guarantee for the remainder (€94 million). The process is currently awaiting a resolution.

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

The Company's directors do not expect any additional liabilities to arise from these inspections that might have a significant effect on the accompanying financial statements.

23. Revenue and expenses

a) Foreign currency transactions

The amounts of foreign currency transactions are as follows:

	€ thousand	
	2017	**2016**
Purchases	37,471	111,212
Sales	83,875	192,729

b) Revenue

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

	%	
Market	**2017**	**2016**
Domestic market	9.50	18.47
International market	90.50	81.53
	100.00	**100.00**

The breakdown of revenue by product line is as follows:

	%	
Line	**2017**	**2016**
Energy project management	70.22	64.32
Mining & Handling project management	18.02	27.69
Oil & Gas project management	5.30	3.34
Sundry services	6.46	4.65
	100.00	**100.00**

In 2017, sales were recorded totalling €80.8 million, €61 million and €28.5 million, respectively, with three customers that, individually, represented over 10% of the Company's revenue (2016: two customers amounting to €97 million and €49 million, respectively, represented over 10% of the Company's revenue).

c) Operating grants released to income

No operating grants were recognised in 2017. €15 thousand was recognised in 2016, related mainly to research and development grants.

d) Personnel expenses

	€ thousand	
	2017	**2016**
Salaries and wages	27,806	27,815
Termination benefits	174	299
Share-based payments	-	-
Employee benefits expense:		
- Social Security payable by the Company	5,880	6,371
- Other benefits	260	172
	34,120	**34,657**

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

	Number of employees	
	2017	**2016**
Directors	1	1
University graduates	252	238
Middle-level technicians	110	109
Other technicians	69	72
Administrative staff	48	49
Other	-	1
	480	**470**

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

	2017			2016		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Directors	-	-	-	1	-	1
Senior managers	7	-	7	9	-	9
University graduates, technicians and administrative personnel	324	135	459	333	136	469
Other				1	-	1
	331	**135**	**466**	**344**	**136**	**480**

At 31 December and 2017 and 2016, there were 10 employees (nine men and one woman) with a disability of greater than 33%.

e) External services

External services include mainly independent professional services and engineering services.

f) Gains/(losses) on disposals of assets

	€ thousand	
	2017	**2016**
Property, plant and equipment	180	-
Investment properties	-	-
	180	**-**

24. Net finance income/(cost)

	€ thousand	
	2017	**2016**
Finance income:		
Dividends		
- Group companies and associates (Note 31)	9,422	2,908
Marketable securities and other financial instruments		
- Group companies and associates (Note 31)	4,599	3,029
- Other	868	518
	14,889	**6,455**
Finance costs:		
Group companies and associates (Note 31)	(208)	(53)
On payables to third parties	(5,204)	(4,729)
	(5,412)	**(4,782)**
Change in fair value of financial instruments:		
Trading portfolio and other	**(36)**	**(179)**
Exchange gains/(losses)	**(18,684)**	**374**
Impairment and gains/(losses) on disposal of financial instruments		
Impairment and losses	(119,045)	(31,268)
Gains/(losses) on disposal and other	(339)	-
	(119,384)	**(31,268)**
Net finance income/(cost)	**(128,627)**	**(29,400)**

a) Finance income and costs

	€ thousand 2017	2016
Finance income:		
- Dividends from investments in group companies and associates	9,422	2,908
- Interest from debt securities	868	518
- Other finance income from group companies	4,599	3,029
	14,889	**6,455**
Finance costs:		
- Interest on current accounts and loans to group companies	(208)	(53)
- Lease interest	(698)	(762)
- Loan interest	(4,302)	(3,783)
- **Interest due to restatement**	(204)	(184)
	5,412	**(4,782)**

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

	€ thousand 2017	2016
Impairment losses:		
- Investments in group companies and associates	(119,045)	(30,896)
	(119,045)	**(30,896)**
Losses on impairment, disposals and other:		
Impairment and reversal of impairment of other financial assets	(339)	(372)
	(339)	**(372)**
	(119,384)	**(31,268)**

Impairment losses on investments related primarily to Duro Felguera Australia. Pty, Ltd, Núcleo de Comunicaciones y Control, S.L., DF Mompresa, S.A.U., Duro Felguera Investment, S.A.U. and Felguera Grúas India Private Limited.

c) Exchange gains/(losses)

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

25. Cash flows from operating activities

	€ thousand	
	2017	**2016**
Profit/(loss) for the year before tax	**(196,260)**	**(19,386)**
Adjustments for:		
- Amortisation and depreciation	4,045	3,322
- Valuation allowances for impairment losses	8,760	372
- Changes in provisions	56,001	23,882
- Grants recognised in the income statement	(127)	(125)
- Exchange gains/(losses)	-	-
- Proceeds from disposals of fixed assets	(180)	-
- Other movements in financial assets	(4,555)	-
- Own work capitalised	-	(2,000)
- Impairment and reversal of impairment of investments	119,044	9,934
- Finance income	(14,889)	(6,455)
- Finance costs	5,412	4,782
- Change in fair value of financial instruments	36	179
- Other income and expenses	(63)	-
	173,484	**33,891**
Changes in operating assets and liabilities:		
- Inventories	3,050	(5,047)
- Trade and other receivables	21,678	10,379
- Other financial assets	15,095	(179)
- Other current assets	(3,184)	9,548
- Trade and other payables	(29,822)	1,686
- Other financial liabilities	19,648	1,457
- Other current liabilities	10,537	(170,390)
	37,002	**(152,546)**
Other cash flows from operating activities:		
-Interest paid	(5,412)	(4,782)
-Dividends received	9,422	2,909
-Interest received	5,468	3,547
-Other amounts paid (received)	-	(251)
	9,478	**1,423**
Cash flows from/(used in) operating activities	**23,704**	**(136,618)**

26. Cash flows from investing activities

	€ thousand	
	2017	**2016**
Payments for investments:		
- Group companies and associates	(5,348)	(55,748)
- Property, plant and equipment and investment property	(48)	(1,817)
- Intangible assets	(366)	(7,471)
- Other financial assets	-	-
	(5,762)	**(65,036)**
Proceeds from sale of investments:		
- Property, plant and equipment and investment property	180	**-**
	180	**-**
Cash flows from/(used in) investing activities	**(5,582)**	**(65,036)**

27. Cash flows from financing activities

	€ thousand	
	2017	**2016**
Proceeds from and payments for financial liability instruments:		
- Issue:		
- Bank borrowings	27,893	125,068
- Redemption and repayment		
- Bank borrowings	(39,129)	(26,096)
- Other payables	(5,634)	1,457
	(16,870)	**100,429**
Dividends and interest on other equity instruments paid:		
- Dividends and interest on other equity instruments paid	-	(1,148)
	-	(1,148)
Cash flows from/(used in) financing activities	**(16,870)**	**99,281**

28. Guarantees, commitments and other contingencies

a) Contingent liabilities

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

b) Guarantees

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

	€ thousand	
	2017	**2016**
Dunor Energía S.A.P.I. de C.V.	165,512	188,311
Duro Felguera Australia Pty Ltd.	68,008	93,889
Duro Felguera Calderería Pesada, S.A.U.	62,425	74,184
Duro Felguera Argentina	60,604	59,107
DF Mompresa, S.A.U.	56,155	63,432
Duro Felguera Gulf Contracting, LLC.	55,131	-
Opemasa Andina Ltda	40,286	46,925
Turbogeneradores de Perú	28,833	33,273
Núcleo	14,238	14,979
Felguera Gruas India Private Limited	6,553	7,494
Duro Felguera Oil & Gas S.A.U	4,699	4,699
Duro Felguera Rail, S.A.U.	3,860	3,594
DF Operaciones y Montajes, S.A.U.	3,240	4,578
Duro Felguera UK	1,045	7,747
Epicom	465	540
Consorcio El Sitio	34	192
Other group companies	174	428
	571,262	**603,372**

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. Where 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.

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

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

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

In light of these events, the Company launched an internal investigation in accordance with the procedures applicable to this type of situation (Regulation 537/2014 of the European Parliament and of the Council), to clarify the events. In the opinion of the Company's lawyers and directors, although the investigation has not produced evidence of liability for the Company, since the process in the early stages, the directors considered that, based on the information available at the date of authorisation for issue of the financial statements, 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 which, notwithstanding its right of defence, the Company is willing to cooperate.

<u>Roy Hill</u>

The Duro Felguera Australia subsidiary is involved in arbitration proceedings with Samsung C&T in the Arbitration Court of Singapore related to the Roy Hill project, claiming AUD 310 million for guarantees unduly enforced, contracted work not paid, work not paid outside the contract and not recognised by Samsung as customer, and lastly, reimbursement of guarantees unduly enforced against the partner of the Forge consortium, since DFA appears in the proceedings as the head of this consortium.

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

As at the date of these financial statements, there are guarantees provided to the customer that have not been enforced amounting to €5,552 thousand. These guarantees are payable on first demand, so they can be enforced at any time by the customer.

To safeguard its rights, Duro Felguera Australia is involved in two legal proceedings against its customer for breach of contract.

- First, it has filed certain claims through "Adjudications" for additional work performed and payment of work already carried out. While the "adjudications" were resolved in favour of Duro Felguera, the customer has appealed. The courts condemned the customer to pay AUD 11.7 million plus interest on one of the claims, but has yet to conclude on the rest due to procedural defects. This judgement was contested by both parties and is currently pending a legal resolution.

- In addition, on 17 March 2016, a claim was submitted to the Arbitration Court of Singapore covering all the claims against the customer. This is a legal arbitration to which UNCITRAL arbitration rules apply. The hearings have concluded and are now pending analysis and ruling by the Court of Arbitration, which is not expected until the end of 2018.

On conclusion of the hearings held in January and February 2018 in Singapore with testimony by experts and witnesses, and considering the opinion by the Company's external legal advisor, the Duro Felguera Australia subsidiary re-estimated the recoverable amounts, derecognising €55,796 thousand from assets as it no longer considered that this amount was recoverable from the customer and could not be passed on to the suppliers with which there are "back to back" contractual provisions. The Company recognised this impact in a provision for liabilities (Note 20).

The directors consider that the provision recognised covers that maximum amount of risk for Duro Felguera and do not expect any additional liabilities to arise that might have a significant effect on the financial statements of the Company and its subsidiary.

<u>Vuelta de Obligado</u>

On 29 August 2016, UTE Duro Felguera Argentina, S.A. – Fainser, S.A. (90%-owned by Duro Felguera Argentina, S.A.) filed an arbitration claim with the Buenos Aires Stock Exchange against customer Central Vuelta de Obligado for cost overruns sustained during execution of the project, with the following items and amounts:

- Claim for delays in the availability of electricity and compensation for the new labour/trade union agreement, amounting to ARP631 million (approximately €26.7 million) at present.
- Claim for technical modifications to the original project made at the customer's request, amounting to ARP560 million (approximately €23.7 million) at present.
- Claim for losses caused by the sudden lack of representativeness in the scheme for recalculating prices, amounting to ARP631 million (approximately €26.7 million).

- Claim for additional measures adopted to prevent damage and higher costs arising from the default by Central Vuelta de Obligado, amounting to ARP773 million (approximately €32.7 million).

On 7 August 2017, the parties signed a supplementary agreement whereby they undertook to temporarily suspend the process until 29 May 2018, in order to close the combined cycle and complete the project within a reasonable period. During this period, the parties agree to suspend the deadlines in the arbitration and establish a 120-day negotiation period starting from completion and delivery of the project (agreed for 28 February 2018) to conclude the claims filed. If after the suspension no agreement is reached, the parties will be free to continue with the arbitration proceedings.

Regarding this claim, at 31 December 2017, the amount recognised by UTE Duro Felguera Argentina, S.A. – Fainser, S.A. was €47.3 million (Note 2.6.f), updated by the interest for the year at the interest rate indicated previously. The total amount of claims submitted at the closing rate was €127 million (ARP 2,595 million).

As part of this project, a contingent liability was recognised related to arbitration before the Buenos Aires Stock Exchange, in which FAINSER, the part of the temporary joint venture, is claiming, as subcontractor, amounts for various items for a total of USD5,814,686 and ARP514,814,518. At the same time, Duro Felguera Argentina has filed a claim against FAINSER for an amount between ARP72,758,074 and ARP105,153,312.04. The period for providing evidence has concluded and the parties presented their cases. On 20 February 2018, the Court issued a final award in favour of UTE Duro Felguera Argentina, S.A. – Fainser, S.A. for a net amount of approximately €300 thousand.

Gangavarm Port Limited

Subsidiary Felguera Grúas India (FGI) is involved in an arbitration in India with the customer of the Gangavaram Port project II claiming guarantees enforced and unpaid invoices for €36,088 thousand. The process is pending hearing, with a final decision expected to be given in 2019. The plant has been delivered to the customer and is in operation. The maximum penalty under the contract for "Liquidated Damages" is 10%, for which a provision of €4,896 thousand has been recognised.

Trade and other receivables of the Company and the FGI subsidiary includes €18,230 thousand for amounts invoiced and receivable for this project, and €15,954 thousand of guarantees enforced by the customer. No amount is recognised under "Completed work pending certification". Suppliers includes €1,622 thousand in advances from customers related to this project.

The recoverability of the receivable on this project is due to the final award of contractual claims during the project's execution, failing to satisfy prevailing accounting regulations for recognition of the impairment. The plant was delivered and is being operated by the customer, as shown on the customer's website (www.gangavaram.com; seen on 30 April 2016), and the Company has allocated the maximum provisions for delays and penalties according to the contractual terms.

The latest valuation by the legal advisors is dated 26 February 2018. It considered that a successful outcome in the arbitration claim submitted by the DFSA, FGI to recover the amount of guarantees was probable, since enforcement by the customer was legally and contractually improper, as the stage of completion of the project and the amount paid by the customer were far below the amount of completed work. It also considered as probable FGI's claim for the amount of contractual work completed. Although the arbitration is only in the initial stages, it is still unknown whether the customer will submit a counterclaim, which would be assessed at that time.

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

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

Khrisna Port

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

The subsidiary includes under trade and other receivables €4,081 thousand for amounts invoiced and receivable for this project, and €3,924 thousand of guarantees enforced by the customer, as well as a provision for penalties of 696 thousand for the maximum contractual penalty for “liquidated damages” of 10%.

In an opinion issued on 26 February 2018, the external legal advisors considered it probable that a ruling will be in favour of FGI in its claim and counterclaim, since the unpaid invoices relate to completed work, deeming that the other counterclaims do not correspond to or are not covered under the contract. A final ruling is expected to come as of March 2018.

Meanwhile, in an arbitration proceeding, RVR is claiming €4.9 million from FGI for work performed as subcontractor in the Gangavaram (GPL) project, although FGI has submitted a counterclaim for €2 million for work not carried out by RVR that FGI had to do with third parties. The external and internal legal advisors consider that the award will go in favour of FGI in both the claim and counterclaim given the work performed by FGI with the assistance of third parties, providing evidence that RVR did not execute its share of the project. Accordingly, no provision was recognised in this connection. No estimate can be made yet as to the timing of the final decision.

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

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

	€ thousand	
	2017	2016
Guarantees of sales and execution contracts	329,746	410,474
For tender proposals	911	15,474
Other	37	958
	330,694	**426,906**

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

c) Commitments

At year-end 2017, there were no significant commitments to investment in property, plant and equipment and intangible assets
(2016: €260 thousand).

29. Temporary joint ventures and branches

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

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

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

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

	€ thousand	
	2017	**2016**
Assets:		
Non-current assets	16	1
Current assets	66,772	42,993
	66,788	**42,994**
Liabilities:		
Non-current liabilities	(74)	(74)
Current liabilities	(94,501)	(123,318)
	(94,575)	(123,392)
Net assets	**(27,787)**	**(80,398)**
Income	16,748	75,856
Expenses	(49,042)	(66,805)
Profit after tax	**(32,294)**	**9,051**

30. Director and senior management remuneration

a) Key management and director compensation

	€ thousand	
Salaries and other short-term remuneration:	**2017**	**2016**
Members of the Board of Directors	1,061	1,111
Management personnel	1,909	1,556
	2,970	**2,667**

The amount paid to management personnel includes €249 thousand of termination benefits.

b) Loans to related parties

	€ thousand	
	2017	**2016**
Loans to directors, management personnel and their family members:		
Opening balance	72	99
Loan repayments received	(18)	(27)
Loans granted in the year	-	-
Closing balance	**54**	**72**

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

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

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

This information relates to the activities of the directors with respect to Duro Felguera, S.A. and its subsidiaries. In 2017, Javier Valero Artola and Ricardo Córdoba left their directorships and Jose Manuel Garcia Hermoso was appointed as director.

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:

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

NOTE TO THE 2017 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.	146	-	44	-	2000	93	(788)	-	-
Duro Felguera Calderería Pesada, S.A.U.	716	(25)	-	-	13,582	-	-	-	-
Duro Felguera Raíl, S.A.U.	386	-	-	-	11,029	467	-	-	-
Opemasa Andina, Ltda	-	-	-	(52)		-	(2,300)	-	-
Turbogeneradores de Venezuela C.A.	-	-	48	(1)	1,862	-		(2)	-
	1,248	**(25)**	**92**	**(53)**	**28,473**	**560**	**(3,088)**	**(2)**	**-**
ASSOCIATES:									
Zoreda Internacional, S.A.	-	-	-	-	-	-	(17)	-	-
	-	**-**	**-**	**-**	**-**	**-**	**(17)**	**-**	**-**
TOTAL	**26,199**	**(12,248)**	**4,599**	**(208)**	**170,908**	**28,024**	**(46,904)**	**(30,938)**	**9,422**

2016	€ 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.	3,345	(873)	-	-		40	(2,261)	(1,663)	-
Duro Felguera Operaciones y Montajes, S.A.U.	-	(7,271)	-	-	18,570	-	-	(10,705)	-
Duro Felguera Investment, S.A.U.	-	-	55	-	2,400	-	(3,698)	-	-
DF Mompresa, S.A.U.	593	(5,685)	-	-	21,781	1,456	-	(3,566)	-
DF Australia Pty Lda	13,644	(5,835)	627	(52)	12,730	20,049	-	(5,835)	-
DF Uk	-	(18,717)	-	-	49,986	-	-	(18,696)	-
Duro Felguera Oil&Gas, S.A.U.	44	(272)	-	-		-	(17,019)	-	-
Equipamientos, Construcciones y Montaje, S.A. de CV	-	-	-	-		-	(3,751)	-	-
Proyectos e Ingeniería Pycor, S.A. de C.V.	-	(752)	-	-	159	-	-	(194)	-
DF Ingeniería Técnica de Proyectos y Sistemas, S.A.U.	418	(6,881)	-	-	22,388	-	-	(22,827)	-
Eolian Park Management, S.A.	-	-	-	-	320	-	-	-	-
Núcleo de Comunicación y Control, S.L.	-	(2,445)	-	-	7,269	-	(625)	(824)	-
Epicom, S.A.U.	-	(79)	-	-		-	(3,740)	-	-
Duro Felguera Argentina	-	(10,886)	2,237	-	68,053	-	-	(10,886)	-
Duro Felguera do Brasil	-	(212)	2,900	-	4	-	-	-	-
Duro Felguera Indonesia	-	-	-	-	177	-	-	-	-
Felguera Grúas India Private Limited	-	-	-	-	1,519	-	-	-	-
Duro Felguera Gulf Contracting	-	-	-	-	548	-	-	-	-
Turbogeneradores de Perú	-	(12,491)	-	-		-	(1,040)	(355)	-
Dunor Energía	49,354	-	-	-	6,500	15,875	-	-	-
Other group companies	52	(227)	9	-	242	5	(41)	(116)	-
	67,450	**(72,626)**	**5,828**	**(52)**	**212,646**	**37,425**	**(32,175)**	**(75,667)**	**-**

NOTE TO THE 2017 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.	-	(105)	64	-	3,037	63	(75)	-	-
Duro Felguera Calderería Pesada, S.A.U.	-	(1,660)	-	-	8,976	-	(349)	-	-
Duro Felguera Raíl, S.A.U.	-	(483)	-	-	13,877	-	-	-	-
Pontones del Musel, S.A.	-	-	-	-	-	-	-	-	-
Mopre Venezuela	-	-	-	-	-	-	(1)	-	-
Opemasa Andina, Ltda	-	-	-	(1)	-	-	(1,397)	-	-
Turbogeneradores de Venezuela C.A.	-	-	45	-	1,703	-	-	(4)	-
	-	**(2,248)**	**109**	**(1)**	**27,593**	**63**	**(1,822)**	**(4)**	**-**
ASSOCIATES:									
Conaid Company S.R.L.	-	-	-	-	50	-	-	-	-
Estudios e Ingeniería Aplicada XXI, S.A.	-	(174)	-	-	-	-	-	(12)	-
Zoreda Internacional S.A.	-	-	-	-	-	-	(17)	-	-
MDF Tecnogas	-	-	-	-	-	-	-	-	-
	-	**(174)**	**-**	**-**	**50**	**-**	**(17)**	**(12)**	**-**
TOTAL	**67,450**	**(75,048)**	**5,937**	**(53)**	**240,289**	**37,488**	**(34,014)**	**(75,683)**	**-**

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 2017, no dividends or other benefits were paid to significant shareholders (Note 15) (2016: €641 thousand).

32. Environmental disclosures

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

33. Events after the reporting period

On 16 January 2018, an extension of the standstill agreement was signed with the financial institutions, with monthly renewal to a limit of 15 April 2018.

On 27 February 2018, the Via de los Poblados and Las Rozas buildings were sold for the same amounts included in Note 5. The related lease was cancelled, resulting in a reduction in borrowings of €20,861 thousand.

34. Auditors' fees

Fees accrued during the year by E&Y for the audit of the financial statements amounted to €262 thousand (2016: €228 thousand).

Other assurance services provided by companies using the E&Y brand amounted to €608 thousand (2016: €207 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.

2017 Management Report

2017 DIRECTORS' REPORT

CORPORATE INFORMATION

Organisational structure

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

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

Business model

DF is a knowledge and person-based company, specialising in projects that are tailored to its customers' needs. Given its international presence, DF must analyse and manage risks in highly diverse economic, political and social environments. The Company currently obtains 87% of revenue from projects developed outside of Spain.

DF's business lines are synergistic. Specialised Services guarantee excellence in the development of the projects managed by the major project lines of business. This is a performance guarantee that affords a competitive advantage.

DF also enjoys a flexible and streamlined decision-making structure, enabling it to adapt quickly to the changes inherent in the market in which it operates.

GENERAL PERFORMANCE

	€ thousand		
	2017	**2016**	**% Change**
Revenue	279,452	371,065	-24.7%
EBITDA	(78,536)	13,711	-672.8%
Profit/(loss) before tax	(196,260)	(19,386)	-912.4%
Order intake	368,406	279,261	31.9%
Order backlog	765,438	1,729,759	-55.7%

2017 DIRECTORS' REPORT

In 2017, the Company conducted an intensive search for partners given the financial constraints limiting its activity. The search for partners in the domestic and international markets, with Rothschild as advisor, led to numerous contacts, visits and due diligences from several companies and an in-depth review of ongoing projects, including their current stage of completion and the estimated costs of completion. This review led to adjustments in a number of projects begun in previous years, which arose in December, when they were notified in a price-sensitive information disclosure, and at the reporting date.

The decrease in activity caused by the Group's financial position was reflected in lower sales compared to 2016 and in negative margins caused by the higher relative proportion of overheads.

Order intake soared 31.9% to €368 million, an excellent performance given the financial circumstances described. Key projects by amount include: the 500 MW Jebel Ali "K" open cycle power plant in Dubai for €204 million, and the installation of a gas recovery system in Belarus for OJSC Naftan for €84 million. In addition, through subsidiary ECM, a contract was one in 2017 for the Petacalco power plant in Mexico, for over USD 130 million.

The backlog, which was reviewed in accordance with the project deadlines, was undermined by the elimination of four projects worth a combined €862 million, and by sales, which outstripped new order intake in the year.

The in-depth review of all projects led to certain adjustments to some begun in previous years, as disclosed in a price-sensitive information notice at the end of December, and to new adjustments at the year-end.

The Company reported a loss before tax in 2017 of €196 million and net loss of €227.5 million, with negative EBITDA of €78.5 million. Adjusted EBITDA for extraordinary provisions for impairment on sovereign debt of €41 million was a negative €37.5 million. These losses and provisions left the Company with negative equity of €181.1 million, which the Company must correct.

The bottom line for the year was undermined by portfolio provisions and provisions for liabilities and charges to cover losses, mainly at subsidiaries Nucleo de Comunicación and Control y Duro Felguera Australia.

In February 2018, the Company negotiated the terms and conditions of a proposal for a refinancing arrangement with banks after previously signing three standstill agreements (from June to September 2017, September 2017 to 15 January 2018, and January to 15 April 2018). The proposed arrangement, with sufficient support from the banks, should result in a refinancing agreement that would become fully effective after successfully carrying out a capital increase of between €100 million and €125 million. The effectiveness of the agreement will allow for a significant reduction in financial leverage, restoring the company's own funds, improving liquidity and providing sufficient funding to carry out a new business plan in the coming years and, ultimately, relaunch the Company's business activity.

2017 DIRECTORS' REPORT

The Company has engaged the services of Fidentiis to assess the possibility of carrying out a successful capital increase in the market, while at the same time holding conversations with private investors interested in taking an ownership interest in the Company. The first prospections have been promising, with the analysis process set to continue over the coming weeks.

As part of the asset disposal process, the office buildings in Madrid and Las Rozas were sold, generating around €7 million of liquidity.

The Company is implementing a plan to boost efficiency, focusing especially on overheads. The aim is to make the least efficient business divisions viable again and improve productivity relative to peers. As part of this plan, both the added value structure of the businesses and the labour cost of internal processes are being analysed. The target of the plan is to increase added value on sales by 5% and reduce salary costs of employees not related to the direct delivery of projects abroad by 20%. A renowned company has been engaged to provide the legal support, based on similar readjustments in the industry.

Net financial debt at 31 December 2017 stood at €284.2 million, down €12 million from the year before. This was the combined result of a decrease in gross debt in the first quarter of the year and cash burn to meet working capital requirements of projects underway.

Tax audits by the taxation authorities are still underway in accordance with the procedural milestones established. Allegations against the Central Economic Administrative Court are scheduled to be presented soon. The Company's management and tax advisors consider it unlikely that any payment will have to be made in this connection.

As at the date of these financial statements, an internal investigation into the matter had been conducted, as provided for in Regulation 537/2014 of the European Parliament and of the Council, concluding that the Company's commercial practices in Venezuela did not show any illegal conduct and are within the standard commercial and legal guidelines.

Regarding notification of a ruling by Mercantile Court 3 of Gijón, accepting for processing the request by ITK (the company in receivership) for insolvency of a subsidiary and the parent, based on an alleged debt of €46 thousand, the Company has appealed this decision. The appeal, based on the subsidiary's financial soundness and the absence of commercial dealings between ITK and the parent company, has been accepted by the Court, suspending the application for receivership until findings are made.

Business outlook

The Company expects to return to sustainable profit in 2019, considering 2018 to be a transition year, with the turning point coming once the financial restructuring and capital increase are completed. The Company's goal for 2018 is to complete the negotiations with the main financial institutions in the bank pool and execute the capital increase to restore its equity and provide financial footing so that is can deliver the current business plan. Also this year, the Company will implement the alternative measures designed to boost short- and medium-term liquidity. These measures include bringing in a strategic partner, disposing of non-core assets, and carrying out an organisational streamlining.

2017 DIRECTORS' REPORT

KEY INDICATORS

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

	2017	2016
EBITDA	(78,536)	13,711
Working capital	(159,304)	123,311
Net debt	(284,229)	(290,322)

MAIN RISKS AND UNCERTAINTIES

Operational risk

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

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

Foreign currency risk

The Company operates internationally and is exposed to foreign currency risk on transactions in foreign currencies, mainly the US dollar (USD) and Australian dollar (AUD), and to a lesser extent, local currencies in emerging countries, the most important of which at present are the Algerian dinar (DZD), the Chilean peso (CLP) and the Argentinian peso (ARP). Foreign currency risk arises on future commercial transactions, recognised assets and recognised liabilities.

To manage the foreign currency risk arising from future commercial transactions and recognised assets and liabilities, 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.
- For amounts not covered by the above arrangements, exchange insurance or forward contracts are arranged for the required terms; decision-making on hedges is centralised in the Company's Finance Department.

Price risk

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

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

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

Cash flow and fair value interest rate risk

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

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

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

Credit risk

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

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

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

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

Our main customers represent 60% of "Trade and other receivables" at 31 December 2017 (2016: 96%), relating to operations with the type of institutions indicated above. Accordingly, the Company considers that credit risk is extremely limited. In addition to the analysis performed before entering into a contract, the overall position of "Trade and other receivables" is monitored on an ongoing basis, while the most significant exposures (including the type of entities mentioned earlier) are monitored individually.

Liquidity risk

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

Management monitors the forecasts for the Company's liquidity reserves based on estimated cash flows. The Company has credit lines that offer additional support to its liquidity position. Liquidity risk has increased over the past two years, due mainly to the following circumstances:

- the failure to secure financing by the main financial institutions in the bank pool and the restriction on existing credit lines;
- the need to pledge cash or provide security deposits to guarantee fulfilment of projects due to the inability to provide guarantees; and
- the cost overruns on the Vuelta de Obligado project, and the costs of ongoing litigation over the Roy Hill project, which resulted in exceptional use of working capital.

At the date of authorisation for issue of the accompanying financial statements, the Company is arranging a debt restructuring with the main financial institutions. The negotiations envisage maintaining sustainable debt of around €85 million and the conversion of another tranche into convertible shares and/or options. The parties are also negotiating access to a new, additional line of funding of €25 million and bank guarantees for new projects for up to €100 million. Talks with the banks are proceeding well and to schedule, although a potential agreement is contingent on the Company carrying out a capital increase.

Accordingly, the Company has engaged a securities agency to evaluate interest and find prospective investors in a capital increase of up to €125 million. The current outlook is for a positive outcome regarding the capital increase. Both measures will enable the Company to strengthen its equity structure, addressing the cause for dissolution and providing the necessary financial soundness to continue its normal course of business, as outlined in the current business plan. To illustrate the support of the financial institutions, on 16 January 2018, a new extension of the standstill agreement was signed, with maximum maturity of 15 April 2018 (Note 33).

In addition, to strengthen its liquidity, the Company is exploring, together with its advisors, alternative measures to improve liquidity in the short and medium term, include disposing of non-core assets, and carrying out an organisational streamlining. As part of these measures, on 27 February 2018, the Vía de los Poblados and the Las Rozas buildings were sold, reducing borrowings by €21 million and leaving cash of €7 million (Notes 5 and 33).

NON-FINANCIAL STATEMENT

CORPORATE SOCIAL RESPONSIBILITY

Duro Felguera is firmly committed to the United Nations Global Compact, formally undertaking this commitment when it became a signatory in September 2002. The Company claims, as part of its own, the 10 universally accepted principles enshrined in the Global Compact arising from the declarations by the United Nations in the areas of human rights, labour, environment and anti-corruption.

CSR Policy

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

The Company has a CSR Policy, which sets out the main principles and general policy framework guiding its strategy and the corporate responsibility practices undertaken by the Company, in addition to best practices in corporate governance.

The general principles guiding the Company's CSR strategy and plans are:

- Firm commitment to respect the environment in the execution of all projects
- Strict health and safety policies for personnel, facilities and execution of projects
- Quality policies aimed at continuous improvement of processes
- Continuous learning initiatives for Company employees on the execution of major projects and technical issues affecting the various businesses
- Recruitment of young professionals, providing them with training and professional development geared towards international business
- Transparency in all dealings with shareholders and investors, through communications via the website and active participation in various national and international forums
- A strategy of constant dialogue with social agents on labour-related issues
- Cooperation in developing the communities where the Company carries out its projects, helping to implement various types of infrastructure needed in the surrounding areas, especially where they are clearly behind
- Collaboration with various social, cultural and sporting organisations in areas where we operate
- Compliance, supervision and monitoring of existing legislation, the Company's internal rules and regulations, and good corporate governance practices undertaken by Duro Felguera, while fostering cooperation with authorities and regulators

Duro Felguera's corporate strategy regarding sustainability, the environment and social issues is geared especially towards achieving a sustainable and socially responsible business model, and setting sustainable and socially responsible business goals and strategies.

The Company also endeavours to enhance the Group's competitiveness by adopting management practices underpinned by innovation, efficiency, profitability and sustainability, while promoting the application of principles of equality, informative participation, transparency and trust in its dealings with stakeholders.

A key priority of Duro Felguera's corporate strategy on the social front is the contribution to the development of the local communities and regions where the Group has operations, aiming to maximise economic, social and environmental benefits for all.

In this vein, the Company strives to reduce the negative impacts of its operations by promoting responsible and sustainable management of the risks inherent in the execution of its projects.

Duro Felguera ensures strict compliance with prevailing legislation, internal rules and regulations, good governance recommendations and other applicable CSR practices at all times.

The CSR Policy outlines the commitments undertaken by the Company with its main stakeholders (employees, customers, suppliers and investors); the environment, human rights, respect for people and diversity; society and the local communities where it has operations; anti-corruption, and tax matters.

General Code of Conduct

Duro Felguera has had a General Code of Conduct in place since 2009, which sets out the principles of integrity, honesty and transparency required of all Group employees. The code is designed to be the formal expression of good practices that should govern the conduct of Duro Felguera and its employees in discharging their functions and in their commercial and professional relationships.

The Company is firmly committed to the General Code of Conduct, which establishes the guidelines for compliance with the law; respect for human rights; professional development and equal opportunities; ethical conduct by Group employees; the prevention of potential conflicts of interest; the prohibition of bribery and corruption in all its forms; respect for the environment; transparency and objectivity in financial reporting; and transparency and honesty in relationships with customers and suppliers.

MATERIALITY ANALYSIS

Preparation process

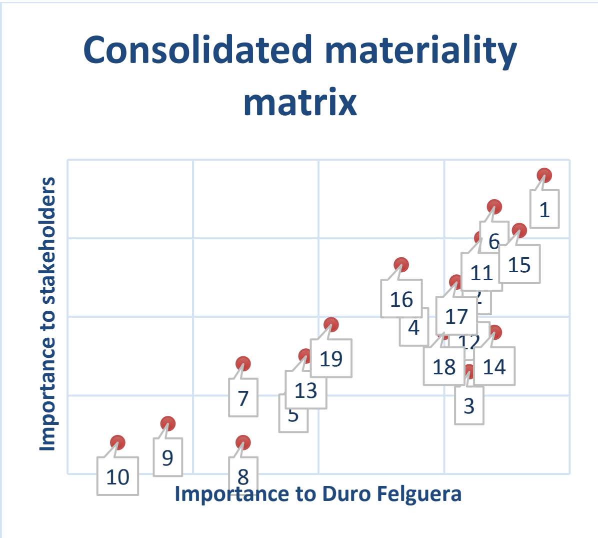
Duro Felguera conducts its own materiality analysis to identify material topics, considered as those that are relevant for DF's stakeholders, as well as for the Company itself and its corporate strategy.

In a first phase, Duro Felguera determines the general material issues using documentary sources from leading CSR authorities, such as the United National Global Compact, the Organisation for Economic Cooperation and Development (OECD) and a variety of specialist journals. The general material issues are rounded off with a benchmarking of the main industry players and sector publications.

Duro Felguera then maps the potential material issues to the issues identified by the Company's business lines and various departments, to detect material topics for the day-to-day business and the material topics for the stakeholders involved.

Based on this analysis, the material topics are arranged and prioritised in accordance with two variables: the importance attached by Duro Felguera's stakeholders and the importance attached by the Company at consolidated level (after the material topics identified by the manufacturing workshops, EPC projects and the Group's offices).

Result of materiality analysis



1	Health and safety
2	Employment conditions
3	Talent attraction and retention
4	Employee training
5	Diversity and equal opportunities
6	Environmental compliance
7	Waste management
8	Water
9	Materials
10	Electricity consumption
11	Regulatory compliance
12	Respect for human rights
13	Local communities
14	Prevention of illegal conduct and corruption
15	Project execution
16	Financial position
17	Business performance
18	Financial performance and fiscal transparency
19	Innovation

HUMAN RESOURCES

Personnel

Duro Felguera's professionals are its main asset. The success of the Company's sustainability and its social and economic performance depend on them. Therefore, Duro Felguera particularly cares for the well-being of its employees. The CSR Policy sets out the guidelines for Duro Felguera with its employees, including:

a) **Prohibiting** any type of employment or professional discrimination
b) **Promoting** equal opportunities and fostering a merit-based corporate culture
c) **Recruiting and promoting** professionals based on criteria of merits and abilities
d) **Respecting** the freedom of association and collective bargaining
e) **Promoting the professional growth of employees** of Duro Felguera, ensuring objectivity in evaluation processes, performance appraisals, and internal promotion

In 2017, the HR department continued to focus on two key issues closely related to Duro Felguera's business performance:

1.- Providing support to the various business lines' international projects in all matters related to expatriate and/or displaced employees, so that the projects can be completed, and stepping up cooperation and planning measures to achieve optimal results.
2.- Meeting the demand for qualified talent arising from requests by various areas of the Company, mostly to reinforce the teams related to the development of ongoing projects.

<u>Recruitment of personnel</u>

Over the course of 2017, a total of 158 recruitment process for qualified staff were carried out, mainly for inclusion in projects already under way. The breakdown is as follows:

Company	No. of processes	No. of candidates presented
DF Staff	4	18
DF Energía	27	290
DF Mining & Handling	11	110
DF Engineering	0	0
Services	17	518
Manufacturing	0	0
FIHI	80	333
DF Oil & Gas	1	14
Núcleo	13	31
Epicom	5	30
Total	158	1344

Training

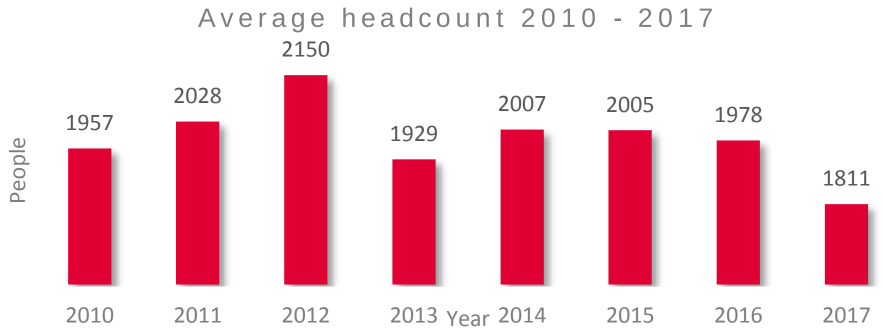
As in previous years, the Training Plan implemented in 2017 availed of reductions in social security charges through formalities completed with Fundación (Tripartite Training Foundation). The following table presents data on training in 2017 and comparisons with 2015 and 2016:

Item	2015	2016	2017
Training actions	78	106	75
Participants	328	542	420
Training hours	11,295	28,395	10,938

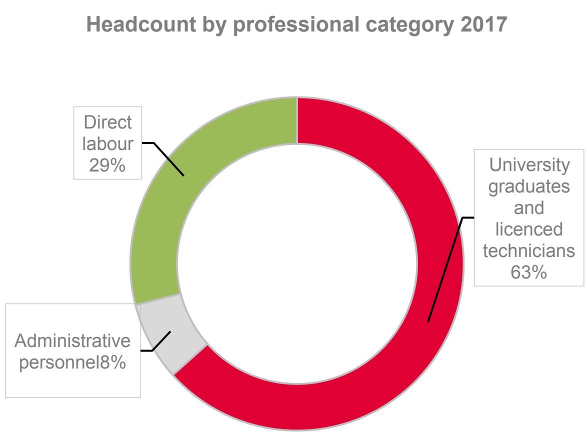
Of training given in the year, e-learning accounted for 4,930 hours and on-site training for 6,008 hours.

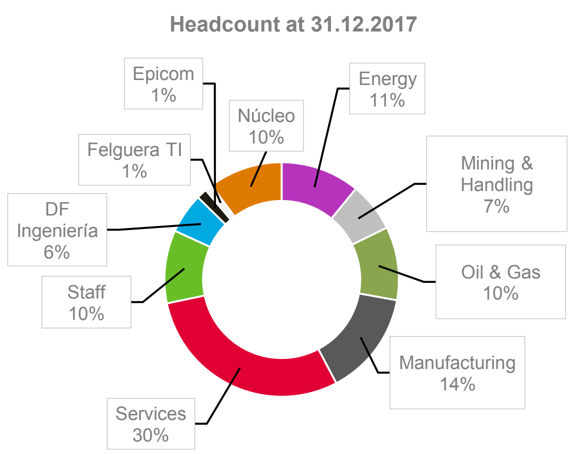
Employee data

The following charts illustrate the distribution of DF staff by different metrics:



Statistics for average workforce do not include local personnel.



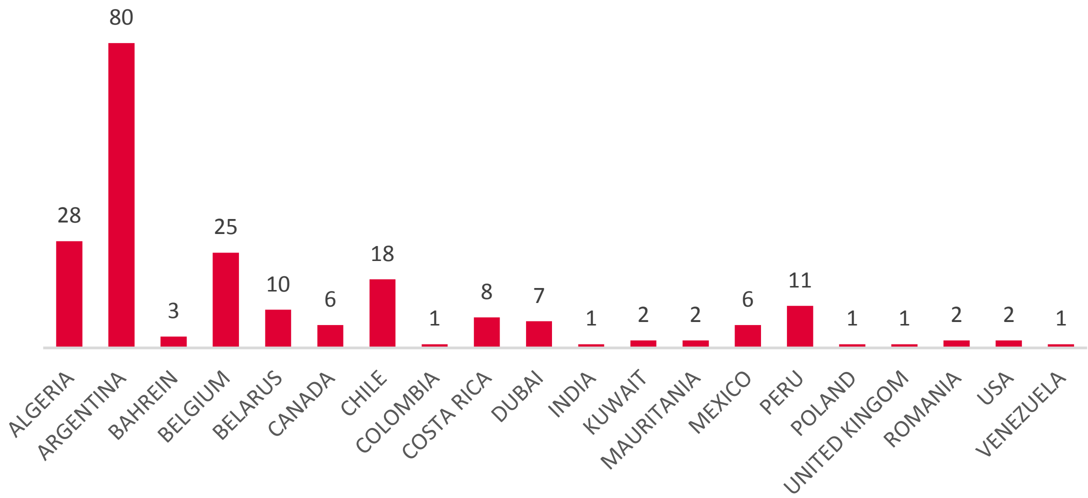


2017 DIRECTORS' REPORT

Expatriates by country

DF currently has 215 ex-pat employees in the 20 countries where the Company has operations.

Expatriates by country, 2017



Staff restructuring measures

The key highlight of 2017 was the closure of activity of the manufacturing subsidiary, TEDESA (based in Llanera, Asturias). This required decisions with a social impact to be taken, including the loss of 40 jobs. The approach complied strictly with prevailing laws, honest and effective negotiation with the legal representatives of the workers affected and a final agreement entailing significantly better financial and employment terms than the minimal legal requirements.

An expert, legally accredited firm was engaged to offer outplacement services to employees requesting this (the majority), providing professional assistance to a group with a high level of seniority at TEDESA so that can they other opportunities in the labour market. Moreover, regarding particularly vulnerable employees, the least traumatic solutions possible were offered to employees over the age of 55.

Health and safety

As illustrated by the accompanying data, the number of labour-related accidents and incidents has declined considerably; in 2017, as in previous years, the Group's accident rates are far lower than the sector averages where it operates.

Continuous improvement in this respect, not to mention the unwavering commitment to preserving the well-being of its employees, affords more direct and tangible benefits. For this, management reporting includes the amounts recovered of social security contributions for occupational hazards under a procedure set out in regulations known as the "Bonus-Malus" scheme, whereby compensation is given for continuous improvement in accident rates, investment in safety in the workplace, the structure of qualified internal professionals, and a management model that meets international standards.

Significant amounts are now being recovered through this scheme.

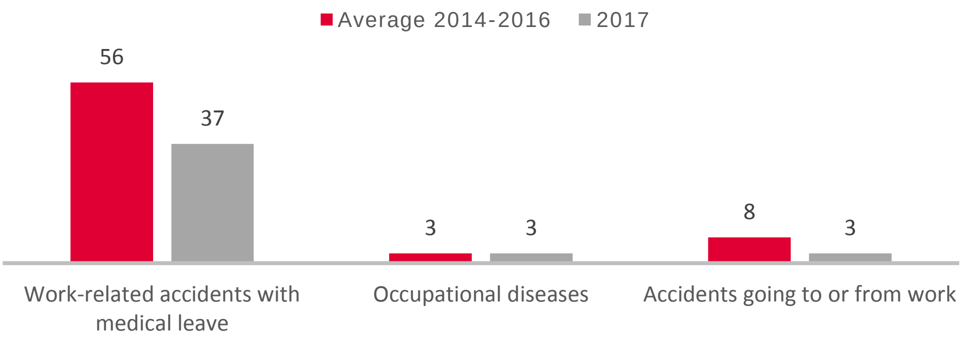
In this respect, substantial progress has been made in extending good occupational health and safety practices to the Company's international projects. Even in countries that present challenges, a preventive culture and the integration of safety procedures in the development of operations bodes well, since irrespective of the project or destination, safety of both internal and subcontracted employees is improving and being addressed.

Accident rates

- Absolute values.

Statistics for average headcount of 1,811 employees (on staff in Spain) and 3,319,756 hours worked in 2017 (compared to the average of the last three years).

	Average (2014-16)	2017	Change
Work-related accidents with medical leave	56	37	-44%
Occupational diseases	3	3	=
Accidents*going to or from work*	8	3	-62%
Lost days	2,339	1,663	-29%



- Injury rates:

Criteria: Directive 89/391/EEC on the introduction of measures to encourage improvements in the safety and health of worker at work. ESAW: EUROPEAN STATISTICS ON ACCIDENTS AT WORK

	Average (2014-16)	2017	Change
Accidents	2,829.75	2,043.07	-28%
Incidence rate	15.11	11.14	-26%
Severity rate	0.63	0.53	-15%

Injury rates in 2017 allowed DF to meet the requirements for availing of deductions in social security contributions provided for in Order TIN/1448/2010, entailing the reimbursement of up to 10% of Social Security contributions for professional contingencies.

Industrial hygiene: Over the course of 2017, hygiene actions were carried out with a representative population of more than 140 employees. In addition to these direct measurements of real working conditions, 159 non-employee environmental samples were taken to complement the direct measurements and provide the necessary arguments for an overall evaluation of the working environments.

Target results backed by 194 analyses were included in 60 hygiene reports.

Health monitoring: In 2017, a total of 1,752 health examinations were carried out under these specific protocols. Where required, the cases are complemented by specific analyses (8) and additional tests (2).

Audits of the SST Management System. Certification of the system in accordance with the OHSAS 18001:2007 standard was renewed in 2017 and is valid for the 2017-2019 period.

ENVIRONMENT

Duro Felguera is also firmly committed to the environmental principles (7, 8 and 9) of the United Nations Global Compact, which state: "businesses should support a precautionary approach to environmental challenges"; "businesses should undertake initiatives to promote greater environmental responsibility; and "businesses should encourage the development and diffusion of environmentally friendly technologies", respectively.

In its CSR Policy, the Company undertakes to "integrate the environmental variable into its strategic management and, in particular, sustainability and respect for the environment" and "promote and foster environmental protection and preservation, involving its managers, directors, and employees, as well as the Group as a whole […] through continuous improvement, integration of the sustainability concept in the decision-making process and assessing the impact of its activity in the areas where it operates".

Accordingly, the document includes the commitment to ensure that projects are executed and services rendered in an environmentally-sustainable and friendly way, carrying out environmental assessments in each activity, coordinating and promoting innovative initiatives to boost the efficiency, effectiveness and sustainable development of projects, and implementing an environmental management system (EMS) to control and minimise the environmental impacts caused by its activity (the Company has had a corporate EMS in place since 2012 certified under the ISO 14001 standard and endorsed by Lloyd's Register).

The goals set out in the Company's CSR Policy are expounded on in the **Duro Felguera Environmental Policy**, approved in 2012:

1. Integration of environmental aspects and respect for the natural environment in the Group's strategy.

2. Assurance that financial performance and environmental protection are compatible at all times through innovation and eco-efficiency.

3. Detection of areas of continuous improvement in DF's environmental management system through regular checks to ensure that the system adapts to an increasingly competitive market and continuously changing environment at all times.

4. Strict compliance with laws, ensuring that day-to-day operations are carried out in accordance with prevailing legislation and regulations, as well as other applicable environmental requirements.

5. Prevention of pollution, ensuring continuous improvement and prevention of pollution by upgrading and reviewing performance, the achievement of targets and the assessment of environmental aspects and risks.

6. Sustainable development, protecting the environment through sustainable resource usage.

7. Promotion of research and development in new technologies and processes, to help tackle climate change and other environmental challenges, with a preventative approach, minimising environmental impacts where possible.

8. Information and training of employees on the impacts arising from the development of the Group's processes and products to minimise the adverse effects of its activities on the environment.

9. Communication: maintain channels of communication with stakeholders and society at large regarding the activities carried out and their relationship with the environment.

In 2017, DF continued to integrate the environmental aspect into its strategic management as a key factor for maintaining its position in the market. To execute the policy, work continued on reviewing activities and processes to ensure that they are in accordance with the commitments established by senior management in the 2012 environmental policy. This ongoing review ensures that the Company not only complies with applicable environmental requirements, but also identifies opportunities to enhance its environmental performance, linking this to its approach as a sustainable company.

The main actions in 2017 targetted the following areas:

Control and minimise the significant environmental aspects

As an international company, the environmental impacts caused by its activities are diverse and mostly arise in the areas where it develops projects.
Aware of this, the Company designs, builds, and operates in accordance with environmental permits, which include environmental protection and the achievement of legally applicable operating parameters.

- **Award and renewal of environmental permits:**

Before embarking on any projects, DF performs a thorough assessment of both regional and state legal requirements to ensure compliance with the environmental regulations of each country, anticipating potential requirements that could arise in order to obtain the permits or licences that represent critical elements for the project's proper development.

Noteworthy in 2017 was execution of the "Aconcagua" project entailing a co-generation plant in the Valparaiso region (Chile) for state-owned ENAP, an environmentally demanding project for both the country's legal framework and the customer's strict demands.

- **On-site operational control:**

The business activity in any phase (design, construction, operation and maintenance) implies certain environmental impacts, which DF identifies and assesses regularly in order to prevent and minimise them as far as possible. Operations such as end-to-end water management, atmospheric emission control (noise and particles) and efficient waste management are some of the practices habitually implemented by DF in its projects.

a) Monitoring programmes:

Monitoring programmes are conducted to ensure that the atmospheric emissions and waste generated by the Company's activities are within the required limits. The aim is to check that the mitigation measures implemented in each project (e.g. land moisturisation, speed controls, placement of acoustic panels, installation of water treatment plants) are sufficiently effective to prevent any alteration in air or water quality. In 2017, environmental follow-ups were performed (air quality: particles, sound levels and waste water), complying with the monitoring programmes established for each project.

b) Efficiency in waste management:

DF's objective is to apply waste handling and management strategies designed to minimise, reuse, and recycle the waste generated during the development of the activities of its projects. Waste management is performed bearing in mind the legal environmental framework, DF's policies and procedures regarding proper management practices, and the final disposal methods for each type of waste generated.

Noteworthy is that all DF projects are carried out with adequate separation and management of waste, with special attention paid to highly pollutant toxic waste. In 2017, DF adequately handled more than 8,300 tonnes of waste in its projects.

By type and destination:

Non-hazardous waste	Unit
Reuse	409.8 tonnes
Recycling	648.52 tonnes
Landfill	6,805.5 tonnes

Hazardous waste	Unit
Solid	458.75 tonnes
Used oil	9,922 litres

c) On-site environmental awareness-raising

Being aware of the importance of knowing the environmental risks of our activities, Duro Felguera remained committed to the on-site training of its workers in 2017, who, as major players in the large-scale DF projects, must be aware of the Group's environmental strategy.

Each project environmental technician must hold an environmental awareness-raising session (induction process) to anyone accessing the site. The main content of these induction sessions is:

- Significant on-site environmental aspects.
- Operational control: Control and mitigation measures for significant environmental aspects.
- Environmental emergency actions.

In addition to general induction sessions given on inclusion to the project, there are also awareness-raising sessions on more specific environmental issues.

In 2017, more than **7,500 man-hours** were spent on DF's international projects.

d) Environmental emergencies

DF draws up specific environmental emergency plans for its activities. The objective is to know what steps must be taken to identify and address potential accidents and situations of environmental emergency, as well as to prevent and reduce the environmental impacts that could be related to them.

Regular checks are performed on the effectiveness of the emergency plans involving drills on the defined emergencies (simulations).

Where drills cannot be carried out, educational training activities are conducted. These activities may entail workshops/training and information courses, at which the guidelines of the Environmental Emergency Plan are explained.

Seven drills were conducted on DF's international projects in 2017.

- **Environmental training:**

Environmental training plan 2016-2017: The following training actions were carried out in 2017 involving a total of 900 hours of formal training:

- Training of worksite staff or personnel related to worksites: technical staff, site managers, inspectors.
- Atmospheric, noise and light pollution, and pollution from odours
- Wastewater
- Management of waste and contaminated soils
- On-site environmental management

- **Environmental performance at offices: Asturias and Madrid:**

Although the environmental impacts arising from our activities in offices would not appear to be significant compared to those arising in the development of our projects, there are certain environmental issues that must be identified and controlled in order to minimise our carbon footprint.

(i) RESOURCE CONSUMPTION

One of the main environmental issues arising in offices is the consumption of resources, including electricity, water, gas and paper. Pending final data for the year at consolidated level, resource consumption at offices was as follows:

Resource	Consumption	CO2 eq emissions	Conversion factors*
Electricity	2,792,990 kw·h	1,272,486.24 kg	1kWh= 0.4556 Kg CO2
Water	9,046 m3	7,128.25 kg	1 m3= 0.788 Kg CO2
Gas	1,019,862 kw·h	205,196.23 kg	1KWh=0.2012 Kg CO2
Paper	12.57 tonnes	37,710 kg	1Kg papel = 3 Kg CO2
TOTAL		1,522,520.72 Kg of CO2 eq	

*Source: Environmental Ministry

- **Certified environmental management:**

DF has decided to include an environmental variable in its strategic business management via approval of its Corporate Environmental Policy.

The aim is to establish a common framework for environmental matters for coordination of the various plans and measures in place, respecting the autonomy and peculiarities of each business segment.

The implementation of this new Environmental Management System, which is certified in accordance with ISO 14001 requirements, integrates the partial certifications existing in the major projects and specialised services lines. At the same time, the manufacturing lines, with specific management systems for each activity, have had their own certification for more than 10 years.

QUALITY

Duro Felguera is well aware that its customers are the ultimate recipients of its work and considers them essential for planning its activity and the continuous improvement processes aimed at professional excellence. Therefore, Duro Felguera develops a customer-centric management system, promoting ongoing communication with customers to know their needs and expectations of the Company and how it works, and converting them into internal requirements for the execution of its professional activity.

Duro Felguera believes excellence in the management of all processes and resources is the best way to create value (for customers, shareholders, employees and society in general). Accordingly, the DF Group makes efforts to shore up systems that ensure, guarantee and continuously improve these processes and enable the Group to quickly adapt to changes in global markets.

Another means of ensuring compliance by DF products and services is to control the quality of suppliers, and the products and services provided to the Company. This enables DF to ensure progress in executions in accordance with applicable rules and regulations for each project and location, thereby avoiding deviations that could affect its ability to meet customer expectations. As a result of this internal requirement, Duro Felguera places tight control over all its productions, with more than 1,500 days of inspection at suppliers' facilities. There inspections are performed on-site by DF's own inspectors or in conjunction with leading international inspection agencies.

DF focuses on project management, applying a system based on planned processes in its interactions and interdependencies, assessing its efficiency and gearing efforts towards achieving pre-determined objectives.

The Company is backed by numerous certifications and references in these endeavours, the most widely known of which are ISO 9001, ISO21500 and PMBok.

In the 1970s, work began on developing and implementing certified management/quality control systems. DF still holds these certifications (ASME systems for N, NPT, U, U2, R, S and A certificates, SQL, etc.), transferring the entire quality culture to the Group's new business lines.

In 2017, the Company prepared for adaptation to the new version of the 2015 ISO9001 standard, which has been fully implemented by Felguera-IHI. Certification under the new standard required certain changes, the most important of which entailed greater direct involvement of senior management in the Quality Management System, and records of risk assessments related to the Company's processes.

Continuous improvement is one of CF's main objectives. This undoubtedly involves a flexible attitude in response to the demands and changes requested by customers throughout all phases of a project, as well as in response to the constantly changing circumstances and opportunities offered by the market.

By carrying out and completing R&D&i projects initiated in previous years, DF achieved a solid position in specific aspects of technical quality in 2017, thanks to projects such as:

Study and analysis of highly elastic thermal ductile materials as an alternative to hardened and tempered materials.

Moreover, inspection systems were developed applying cutting-edge technologies, reducing the time-to-market of the Company's products. TOFD (Time of Flight Difraction), PAUT (Phased Array) or Creeping Waves techniques have been used, along with in-house development of inspection scanners to replace x-rays in soldering of high thickness, resulting in considerable savings in execution times and reducing the period for delivery of equipment.

For quality management, DF has specialised staff by discipline (civil engineering, mechanical engineering, electrical engineering, quality management, and instrumentation and cost) from the Group's various business lines, with assistance from multinational industrial enterprises and renowned international inspection agencies. This enhances the Company's vision, coverage and solvency in aspects with the strictest quality requirements.

Ongoing cooperation with the main inspection agencies in the sector guarantees the international extension of the quality management approach.

REGULATORY COMPLIANCE, PREVENTION OF ILLEGAL CONDUCT AND CORRUPTION

Duro Felguera is firmly committed to ethical business practices and principle 10 of the United Nations Global Compact, which states: "businesses should work against corruption in all its forms, including extortion and bribery".

In line with the commitment to anti-corruption and the prevention of illegal conduct, Duro Felguera's CSR Policy states that the Company's activity shall comply with the currently applicable legislation in all countries in which it operates, enforce Duro Felguera's internal code of conduct, implement the best practices of good corporate governance at all times and put mechanisms in place to prevent illegal conduct. In this vein, Duro Felguera is committed to the core values of integrity, transparency and responsibility.

DF has an "Internal Regulations of Conduct in Securities Markets and Insider Information", which outlines the behaviour required of the persons or entities subject to it who handle information that is confidential and/or price-sensitive for the securities market. These regulations set out the principles and guidelines in the market to provide corporate transactions with the necessary level of transparency so they are managed and controlled appropriately by the Company. The aim is to achieve greater transparency in reporting, in treasury share transactions, and to prevent conflicts of interest. The ultimate goal is to better safeguard the interests of investors in the Company's securities.

The Company's General Code of Conduct, which sets out the main guidelines for employee behaviour, prohibits corruption in all its form. Specifically, it prohibits "directly or indirectly offering, promising or giving something of value in order to influence the receiver to perform or refrain from performing an act for the benefit of or advantage to the Company, other group companies or a third party", or "requesting, accepting or receiving something of value as consideration in return for performing or refraining from performing an act for the benefit of or advantage to any third party".

Bribery includes other conduct such as: "Undercover" payments and facilitation payments to expedite procedures. These payments are common in some countries, but are strictly prohibited by DF, regardless of how insignificant the amount may be.

The General Code of Conduct also states that "All Professionals must comply with the laws in force in the countries where they carry out their activity, in both spirit and letter, and must insure they behave ethically in all their actions."

Duro Felguera has a Crime Prevention Model, which serves as an organisational and management model implementing the necessary surveillance and control measures to prevent crimes and considerably reduce the risk of committing crimes. The Company has appointed a Regulatory Compliance Officer to, among other duties, prevent, detect and manage risks arising from breach of prevailing legislations, establish the appropriate policies and procedures, and develop a corporate regulatory compliance culture.

The Duro Felguera Ethics Line was updated in 2017. This is a channel, accessible both internally and externally, for reporting any breach of the Company's General Code of Conduct and the Crime Prevention Model, with full confidentiality and independence.

The platform guarantees the security and confidentiality of the reports, as well as the independence and impartiality in the investigation of reported incidents, and ensures the absence of retaliation for any type of complaints submitted in good faith. These improvements on the previous whistleblowing channel will become operational in 2018.

Lastly, Duro Felguera Board of Director's approved a specific anti-corruption policy in 2017. This policy outlines the commitments and objectives established by the Company, and further underscores the firm commitment to ethically responsible corporate behaviour.

In this DF policy, the Company undertakes to develop programmes and adopt the appropriate internal regulations and control to prevent and detect transnational bribery, corruption, money laundering, extortion, and fraudulent, collusive and coercive practices in all activities under its effective control.

Among the preventive measures in the policy, DF will promote training, providing the necessary, specific and mandatory courses on the anti-corruption programme, tailored to the Company's needs and circumstances. When necessary, subcontractors and suppliers must also receive training.

Duro Felguera will enforce its anti-corruption policy and its trading partners:

- To prohibit bribery in all trade transactions carried out directly or through third parties, including subsidiaries, joint ventures, agents, representatives, consultants, brokers, contractors, suppliers and any other intermediary under its effective control.
- To implement this policy and its programme at all commercial entities over which it has effective control.
- Where it does not have effective control, it encourages carrying out an equivalent programme in commercial entities in which it holds and investment or has significant business dealings.
- DF will take the right measures if the related commercial entities commit bribery or act in a way that is not consistent with the corporate programme.

RESPECT FOR HUMAN RIGHTS

Duro Felguera is firmly committed to principles regarding human rights in United Nations Global Compact, specifically principles 1 and 2: "Businesses should support and respect the protection of internationally proclaimed human rights"; and "Businesses make sure that they are not complicit in human rights abuses."

Duro Felguera's CSR Policy details specifically the Company's commitments to human rights, respect for people and diversity.

In the policy, Duro Felguera states that it opposes any manifestation of physical, psychological or moral harassment and abuse of authority, as well as any other conduct that might generate an environment that is intimidating or offensive to the rights of persons. It also guarantees professional respect and mutual cooperation among Company employees or external service providers, and respect for diversity, equal opportunities and non-discrimination based on gender, age disability or any other circumstances. Duro Felguera's CSR Policy also places priority on the integral development of people and facilitates work-life balance. Lastly, the document includes the Company's commitment to recognising the rights of ethnic minorities in the countries where Duro Felguera has operations, and rejects child labour and, in general, any form of exploitation.

In its General Code of Conduct, Duro Felguera notes that "DF Professionals must treat each other with respect, adopting cordial relations and a pleasant, healthy and safe working environment. All Professionals have the obligation to treat their colleagues, their superiors and their subordinates in a fair and respectful manner. Similarly, relations between DF Professionals and those of external companies or organisations with which they work shall be based on professional respect and mutual cooperation".

Lastly, in 2017, Duro Felguera's Board of Directors approved a specific policy on human rights, reinforcing its commitment to principles 1 and 2 of the United Nation's Global Compact and guiding principles for businesses and human rights.

The Company considers this policy as a preliminary step towards full implementation of the obligation to respect human rights in all its processes and decisions and those of the companies comprising the DF Group, and undertakes:

- Not to violate, directly or indirectly, due to action or omission by itself or related parties, the human rights enshrined in the Universal Declaration of Human Rights.
- Respect internationally recognised human rights in the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, and the Declaration on Fundamental Principles and Rights at Work, in addition to other International Labour Organization conventions.
- Establish due diligence procedures for preventing and mitigating adverse impacts on human rights of third parties caused by transactions, products or services provided or originated from trade relations, which is one of the areas with the greatest risk.
- Respect OECD Guidelines for Multinational Enterprises and the United Nations Global Compact.
- Protect health and safety at the workplace and working environment, procuring safety, health and quality of life for both employees and third parties in the communities or cities where the Company operates or carries out its work.
- Prohibit child labour in all its forms, and not include any product or service in its business activity that involves this type of practice.
- Uphold the freedom of association, and the recognition of the right to collective bargaining.
- Encourage non-discrimination, ensuring equal opportunities.
- Promote fair and equal employment conditions.
- Reject any manifestation of physical, psychological or moral harassment and abuse of authority, as well as any other conduct that is degrading, intimidating or offensive to the rights of persons.
- Respect the rights of indigenous peoples of the communities where the Company carries out activity.
- Promote and encourage environmental protection and preservation.
- Reject corruption in all its forms.

In line with the CSR Policy, among others, there is a commitment to promoting and fostering compliance by suppliers and contractors with international standards and regulations on human rights.

RESEARCH AND DEVELOPMENT

Significant efforts were made in 2017 to continue several lines of research in a number of business areas so that the Company can remain at the technological forefront compared to its competitors. The Company also worked hard on R&A and the addition of new technologies to further enhance production processes. Meanwhile, progress was made on developing more efficient production manufacturing and inspection methods, highlighted by research into new hardfacing to allow for efficient manufacturing in a shorter amount of time.

The Company also undertook a major research project to obtain new processes for the production of larger equipment. This project has been recognised and supported by the Spanish Centre for the Development of Industrial Technology (CDTI).

DF Rail, the subsidiary specialised in railway track devices, continued developing its new anchoring system, achieving the first of the project's three milestones and starting on the second. The anchoring systems are expected to achieve the pertinent certifications in 2018, for final on-track tests this year.

The manufacturing line, through the Logistics Systems area, continued to pursue a strategy of process specialisation and automation in handling merchandise. A new project was initiated that will expand the range of products for automated lorry loading and unloading, offering new solutions.

In the DF Smart Systems line, the "Augmented Factory 4.0 (AF4)" project spearheaded by Felguera Tecnologías de la Información was successfully completed. This project was designed to develop an augmented reality system to support real time decision-making in industries, geared towards Industry 4.0. Meanwhile, work continued on technology-intensive products. Noteworthy achievements include progress on the SHERPA 5000 R. Meanwhile, DF Epicom, the Group company involved in cryptography, completed the development of its multi-purpose encryption tool and began the design of a new one with increased capacity offering even greater security.

Lastly, within the Oil & Gas sector, Felguera-IHI completed its project for the design of large canopies, enabling it to undertake the design of larger canopies in line with the overall trend in gas storage.

CDTI Centro para el Desarrollo Tecnológico Industrial

UNIÓN EUROPEA
Fondo Europeo de
Desarrollo Regional

TREASURY SHARE TRANSACTIONS

A total of 16,000,000 treasury shares, representing 10% of share capital, were held at 31 December 2017.

AVERAGE PAYMENT PERIOD TO SUPPLIERS

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

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 16 January 2018, an extension of the standstill agreement was signed with the financial institutions, with monthly renewal to a limit of 15 April 2018.

On 27 February 2018, the Via de los Poblados and Las Rozas buildings were sold for the same amounts included in Note 5. The related lease was cancelled, resulting in a reduction in borrowings of €20,861 thousand.

ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report for 2017 is attached as an appendix and forms an integral part hereof, as provided in article 526 of the Corporate Enterprises Act.

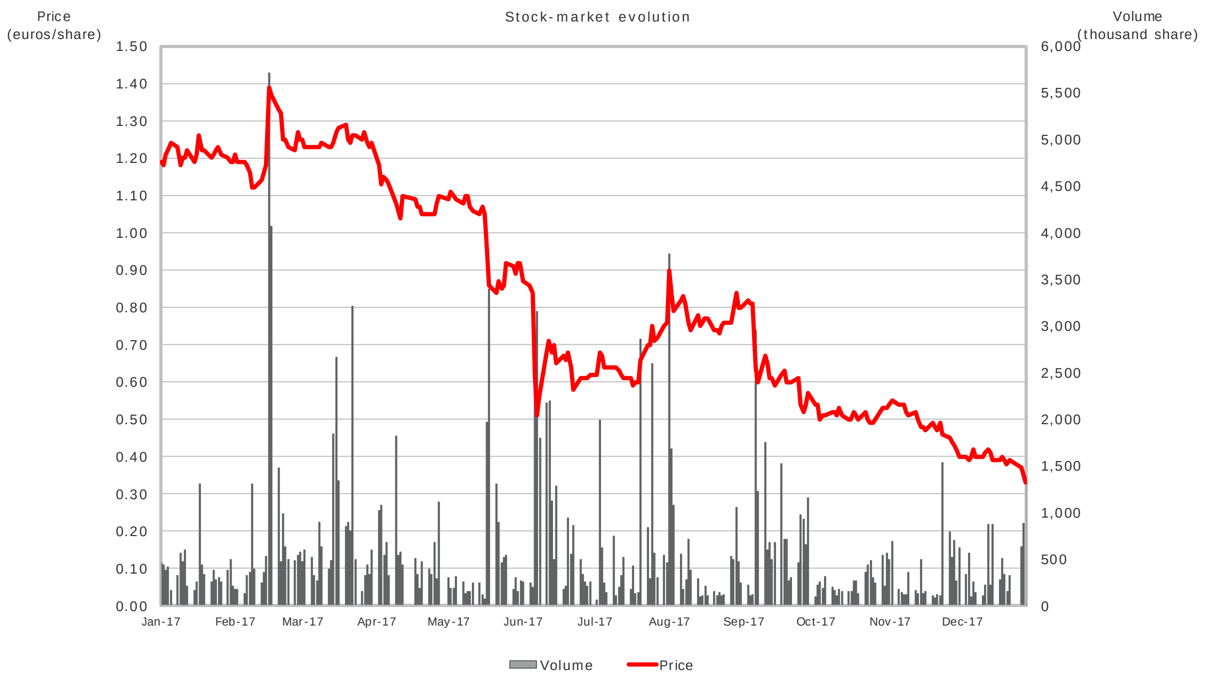
OTHER RELEVANT INFORMATION

<u>Stock market data</u>

The main stock-market data for the Group in 2017 and 2016 are as follows:

	2017	**2016**
Closing price	0.33	1.12
Period in the year	-70.54%	-15.15%
High (€)	1.48	1.77
Date of high	2/17/2017	4/25/2016
Low (€)	0.33	1.01
Date of low	12/29/2017	1/20/2016
Trading volume ('000 shares)	155,645	111,801
Cash (€000)	136,548	140,768
Number of shares (x 1.000)	160,000	160,000
Market cap at year-end (€000)	52,800	179,200

Source: Madrid Stock Exchange



<u>Dividend policy</u>

After reporting a loss for the year, the Company will continue to suspend dividend distributions until it becomes profitable again.

APPENDIX I

ANNUAL CORPORATE GOVERNANCE REPORT

FOR LISTED PUBLIC LIMITED LIABILITY COMPANIES

ISSUER'S PARTICULARS

REFERENCE FINANCIAL YEAR-END	31/12/2017

TAX IDENTIFICATION CODE (CIF)	A-28004026

COMPANY NAME
DURO FELGUERA, S.A.

REGISTERED ADDRESS
ADA BYRON, 90 - 33203 GIJÓN (ASTURIAS)

ANNUAL CORPORATE GOVERNANCE REPORT

FOR LISTED PUBLIC LIMITED LIABILITY COMPANIES

A OWNERSHIP STRUCTURE

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

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
05/05/2010	80,000,000.00	160,000,000	160,000,000

Indicate whether there are different classes of shares with different associated rights:

Yes ☐ No ☒

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
JUAN GONZALO ALVAREZ ARROJO	0	39,017,243	24.39%
UNCLAIMED ESTATE OF RAMIRO ARIAS LOPEZ	0	16,043,716	10.03%
ONCHENA, S.L.	8,087,407	0	5.05%

Name or corporate name of indirect owner of the interest	Through: Name or corporate name of direct owner of the interest	Number of voting righs
JUAN GONZALO ALVAREZ ARROJO	INVERSIONES SOMIO, S.L.	39,017,243
UNCLAIMED ESTATE OF RAMIRO ARIAS LOPEZ	INVERSIONES RÍO MAGDALENA, S.L.	16,043,716

Indicate the most significant movements in the shareholder structure during the year:

A.3 Complete the following tables on directors of the company that hold voting shares in the company:

Name or corporate name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
FRANCISCO JAVIER GONZÁLEZ CANGA	2,400	0	0.00%
ANGEL ANTONIO DEL VALLE SUAREZ	554,196	45,896	0.38%
ACACIO FAUSTINO RODRIGUEZ GARCIA	33,704	0	0.02%
INVERSIONES SOMIO, S.L.	39,017,243	0	24.39%
INVERSIONES RÍO MAGDALENA, S.L.	16,043,716	0	10.03%
INVERSIONES EL PILES, S.L.	10,974	39,017,243	24.39%

Name or corporate name of indirect owner of the interest	Through: Name or corporate name of direct owner of the interest	Number of voting rights
ANGEL ANTONIO DEL VALLE SUAREZ	BEATRIZ DEL VALLE ÁLVAREZ	45,896
INVERSIONES EL PILES, S.L.	INVERSIONES SOMIO, S.L.	39,017,243

% total of voting rights held by the Board of Directors	34.79%

Complete the following tables on directors that hold share options in the company

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships among owners of significant shareholdings, insofar as these are known to the company, unless they insignificant or arising from ordinary trade or exchange activities:

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:

A.6 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*"). Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes ☐ No ☒

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

Yes ☐ No ☒

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

No amendments were made.

A.7 Indicate any natural or legal persons that exercise or may exercise control over the company in accordance of Article 4 of the Spanish Securities Market Act. If so, identify:

Yes ☐ No ☒

Remarks

A.8 Complete the following tables on the Company's treasury shares:

At the financial year-end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
16,000,000	0	10.00%

(*) Through:

Give details on any significant variations during the year, according to the provisions of Royal Decree 1362/2007:

Explain any significant changes

A.9 Detail the conditions and the period(s) of the authorisation(s) granted by the Shareholders' General Meeting to the Board of Directors for the issue, buy-back or transfer of treasury shares.

The General Meeting authorised the Board of Directors 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.

See Appendix I, Explanatory Note 1.

A.9.bis Estimated free float:

	%
Estimated free float	50.18

A.10 Indicate whether there are any restrictions on the transfer of securities and/or any restrictions on voting rights. In particular, report the existence of any type of restrictions that make it difficult to take control of the company by acquiring shares in the market.

Yes ☐ No ☒

A.11 Indicate whether the General Meeting has agreed to take neutralisation measures to prevent a takeover bid under Law 6/2007.

Yes ☐ No ☒

If so, explain the measures approved and the terms under which the restrictions may be lifted:

A.12 Indicate whether the company has issued securities not traded on a regulated market of the European Union.

Yes ☐ No ☒

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

B GENERAL MEETING

B.1 State and, if appropriate, provide details of any differences between quorum established by the Corporate Enterprises Act (LSC) and the quorum required to hold a General Meeting.

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 ☒

Describe how it differs from the system contemplated in the LSC.

B.3 Indicate the rules applicable to amendments to the company's bylaws. In particular, report any majorities required to amend the bylaws and any rules established for safeguarding shareholder rights when amending the bylaws.

Those provided in the Corporate Enterprises Act.

B.4 Provide details of attendance at General Meetings held during the reporting year and the preceding year:

Date of general meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			Electronic voting	Other	
21/4/2016	12.23%	70.70%	0.00%	0.00%	82.93%
22/6/2017	11.09%	45.37%	0.00%	0.00%	56.46%

B.5 Indicate whether the bylaws impose any restrictions requiring a minimum number of shares to attend General Meetings:

Yes ☒ No ☐

Number of shares required to attend the General Meeting	400

B.6 Section repealed.

B.7 Indicate the address and manner of accessing corporate governance and other information on General Meetings that must be made available to shareholders on the company's website.

www.dfdurofelguera.com

The website has a section called "Investor's Area". There, a drop-down menu provides access to the "Corporate Governance" section, where the reports of previous years are available.

C STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1 Board of Directors

C.1.1 List the maximum and minimum numbers of directors stipulated in the bylaws:

Maximum number of directors	12
Minimum number of directors	6

C.1.2 Complete the following table with details of the members of the board:

Name or corporate name of director	Representative	Director category	Position on the Board	Date of first appoint ment	Date of last appoint ment	Election procedure
FRANCISCO JAVIER GONZÁLEZ CANGA		Independent	DIRECTOR	19/6/2014	22/6/2017	GENERAL MEETING RESOLUTION
ANGEL ANTONIO DEL VALLE SUAREZ		Proprietary	DIRECTOR	23/6/2011	22/6/2017	GENERAL MEETING RESOLUTION
ACACIO FAUSTINO RODRIGUEZ GARCIA		Executive	CHAIRMAN	25/5/2005	22/6/2017	GENERAL MEETING RESOLUTION
INVERSIONES SOMIO, S.L.	JOSE MANUEL LÓPEZ VÁZQUEZ	Proprietary	DIRECTOR	29/5/2003	22/6/2017	GENERAL MEETING RESOLUTION
INVERSIONES RÍO MAGDALENA, S.L.	MARIA TERESA ARIAS ZAPICO	Proprietary	DEPUTY CHAIRMAN	23/6/2011	22/6/2017	GENERAL MEETING RESOLUTION
INVERSIONES EL PILES, S.L.	JAVIER SIERRA VILLA	Proprietary	DIRECTOR	26/6/2003	22/6/2017	GENERAL MEETING RESOLUTION
ELENA CABAL NORIEGA		Independent	DIRECTOR	22/6/2017	22/6/2017	GENERAL MEETING RESOLUTION
JOSE MANUEL GARCÍA HERMOSO		Independent	DIRECTOR	22/6/2017	22/6/2017	GENERAL MEETING RESOLUTION

Total number of executive directors	8

Indicate any directors who left during the reporting period:

Name or corporate name of director	Category of director at the time of departure	Date of departure
FRANCISCO JAVIER VALERO ARTOLA	Independent	26/4/2017
RICARDO CORDOBA	Independent	23/10/2017

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Name or corporate name of director	Position held in the comp
ACACIO FAUSTINO RODRIGUEZ GARCIA	CHAIRMAN

Total number of executive directors	1
% of the board	12.50%

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment
INVERSIONES SOMIO, S.L.	INVERSIONES SOMIO, S.L.
INVERSIONES RÍO MAGDALENA, S.L.	CONSTRUCCIONES TERMORACAMA, S.L
INVERSIONES EL PILES, S.L.	JUAN GONZALO ALVAREZ ARROJO

Total number of propietary directors	3

% of the board	37.50%

EXTERNAL INDEPENDENT DIRECTORS

Name or corporate name of director:

FRANCISCO JAVIER GONZÁLEZ CANGA

Profile:

Mr. González has a degree in Mining Engineering from the University of Oviedo. He has spent virtually his entire career at Duro Felguera. He joined the company in 1974 as Head of **Tyurnkey** Industrial Projects from Forjas y Aceros del Guadiana. He was later appointed Project Manager

Between 1984 and 1990, he held the position of Managing Director of Felguera Fluidos and later oversaw various business areas in the Servicios y Maquinaria Duro Felguera subsidiary. In 1996, he rejoined the parent company as Head of Industrial Development until 1999, when he took over as Head of Development and Marketing. From 2004, throughout the next 10 year Javier was in charge of the Strategy and Business Development Division.

He has held seats on the boards of directors of a number of investees in representation of Duro Felguera, including Befesa, Compañía General de Carbones, Sociedad Regional de Promoción del Principado de Asturias (SRP), Aser, Prisma, Rontealde and Eólica del Principado. He has also represented DF in organisations and institutions, such as Asociación Nacional de Fabricantes de Bienes de Equipo (Sercobe) or Instituto Tecnológico de Materiales de Asturias (ITMA).

As an expert in project engineering and development, the new DF director has been a speaker at several seminars and technical workshops, in Spain and several countries of Latin America, discussing a variety of topics, such as environmental technologies, internationalisation of engineering firms, urban waste, IT partnerships, globalisation and competitiveness.

Name or corporate name of director:

ELENA CABAL NORIEGA

Profile:

Degree in Business and Economics from the University of Oviedo, with a post-graduate in tax technique at the University of Oviedo.

Currently accounting professor for the Master's in Tax Advisory programme Colegio de Economistas de Asturias (Asturias professionals economists association), and registered in the list of forensics for the Justice Administration Service and the Ministry of Finance, for which she prepares economic reports and advice.

She has worked as a freelance economist for Colegio de Economistas de Asturias, and is on record with the Tax Advisors Registry (Registro de Economistas Asesores Fiscales), overseeing the Álvarez Cabal Asesores consulting firm, specialised in financial-tax consultancy for small- and medium-sized enterprises. She has also been involved tourism- and construction-related projects.

Name or corporate name of director:

JOSÉ MANUEL GARCÍA HERMOSO

Profile:

Boasts a lengthy professional career, with executive responsibilities and positions at a number of companies, international consultancy firms and investment banks.

Highlights include work as deputy chairman of Instituto Nacional de Industria, deputy chairman of the Spanish National Securities Commission (Comisión Nacional del Mercado de Valores or (CNMV) and chairman of its Advisory Committee. Noteworthy was his term as chairman of Corporación de la Siderurgia Integral, S.A. and executive chairman of Altos Hornos de Vizcaya, S.A. and ENSIDESA, and CEO and chairman of CSI Corporación Siderúrgica, S.A. and subsidiaries, from 1994 to 1996. At Grupo Amper, S.A., he was chief financial controller and member of the Management Committee, and has held seats on the boards of directors of the group's subsidiaries and at Prosegur, S.A., where he was general manager for resources and general manager for Mediterranean Europe.

After joining investment fund GED Capital, he has also held senior positions at several investees, including FAMA-Serdika, Romanian Energy Holding, TEB Energy Business and FASE Estudos e Projectos, S.A. Was chairman of the board of directors of TEB Energy Business y Happy Tour and member of boards of ALUGASA y SFK España , SEAT e IBERIA, Barclays de Zoete and Wedd (BZW) España, Torres Ruiz, S.L, Comunicación Empresarial, S.A, and International Iron and Steel Institute, as well as independent director of GED Real Estate. Was vice-president of UNESID, Eurofer and member of the President's Committee. Has been a member of the advisory board of Progreso de la Dirección, with the role of director-controller from January 1998. Currently member of the board of directors of ADEX since April 2016 and of GED Sur since December 2014.

Total number of independent directors	3
% of the board	37.50%

List any independent Directors who receive from the company or group any amount or payment other than standard Director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, Director or senior manager of an entity which maintains or has maintained the said relationship.

None.

If applicable, include a reasoned statement from the board detailing why the said director may carry on their duties as an independent director.

OTHER EXTERNAL DIRECTORS

Identify the other external directors and detail the reasons why they cannot be considered proprietary or independent directors and their association with the Company, its executives or shareholders:

List any changes in the category of each director which have occurred during the year:

Name or corporate name of director	Date of change	Previous category	Current category
FRANCISCO JAVIER GONZÁLEZ CANGA	22/6/2017	Other external	Independent
ACACIO FAUSTINO RODRIGUEZ GARCIA	24/11/2017	Other external	Executive

C.1.4 Complete the following table on the number of women directors over the past four years and their category:

	Number of women directors				% of total directors of each type			
	2017	**2016**	**2015**	**2014**	**2017**	**2016**	**2015**	**2014**
Executive	0	0	0	0	0,00%	0,00%	0,00%	0,00%
Proprietary	0	0	0	0	0,00%	0,00%	0,00%	0,00%

	Number of women directors				% of total directors of each type			
	2017	2016	2015	2014	2017	2016	2015	2014
Independent	1	0	0	0	33,00%	0,00%	0,00%	0,00%
Other external	0	0	0	0	0,00%	0,00%	0,00%	0,00%
Total:	1	0	0	0	12,50%	0,00%	0,00%	0,00%

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures
There were several vacancies on the Board of Directors in 2017. To achieve a greater balance between women and men directors, the Nomination and Remuneration Committee submitted a proposal to the shareholders at the General Meeting to elect a woman with the appropriate professional profile, finally appointing, as independent director, Elena Cabal Noriega.

C.1.6 Explain the measures taken, if applicable, by the Nomination Committee to ensure that the selection processes are not subject to implicit bias against women candidates, and whether the company makes a conscious effort to include women with the target profile among the candidates for board places:

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 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. 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.

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.

When, despite the measures taken, women directors are few or non-existent, explain the reasons:

Explanation of measures

The procedures for selecting directors do not have any implicit bias against women candidates, as profiles are chosen in accordance with needs of the Company. In 2017, following the criteria explained in the previous section, an independent woman director was appointed after considering that her professional profile matched the interests of the Company.

Despite the vacancies on the board in 2017, the proposal for appointment and re-election of directors considered exclusively that the professional profile of the candidates be the most suitable for the needs of the Company.

Moreover, it should be noted that of the eight board members, three are legal persons. Therefore, the management bodies of these legal persons appoint their natural person representatives.

C.1.6 bis Explain the findings of the Nominations Committee in its check of compliance with the director selection policy. Particularly, explain whether the policy pursues the goal of having at least 30% of total board places occupied by women Directors before the year 2020.

Explanation of the conclusions

Regarding the direction selection policy applied to date, the Nomination Committee concludes that there is a balance in the Board's composition with respect to the various director categories, since it is a small cap company and (ii) independent directors occupy more than a third of board places. When selecting and nominating independent directors, a search process is followed that, as far as possible, guarantees the person's suitability for the position, especially with respect to the composition of the Board committees to which the candidate would be appointed, and especially considering their technical knowledge and professional experience within the Company.

Regarding the goal of having at least 30% of total board places occupied by women directors by 2020, in 2017, as vacancies arose on the board, shareholders at the General Meeting, on a proposal in the report by the Nomination and Remuneration Committee, appointed an independent woman director, giving 33% representation of women in the category of independent directors. Regarding board places occupied by women, as noted in C.1.6., there are three legal person directors, which appoint their representatives without the involvement of the Nomination and Remuneration Committee. The Nomination Committee only reports on natural person directors, with its actions limited to reaching the 30% goal among these.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

Inversiones Somió, S.L. is director, and has another seat on the Board of Directors. Inversiones el Piles, S.L. is a member.
Inversiones Río Magdalena, S.L. is Deputy Chairman and member of the Board of Directors

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital:

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

Yes ☐ No ☒

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:

Name of director:

FRANCISCO JAVIER VALERO ARTOLA

Reason for resignation:

Was independent director of the Company for six years and tendered his resignation alleging that personal reasons prevented him from remaining on the board.

Name of director:

RICARDO CORDOBA

Reason for resignation:

Was appointed by co-option by the Board of Directors. His appointment was ratified at the General Meeting. He tendered his resignation as director of the Company in October 2017, saying that, due to personal reasons related to its private life, he could not dedicate the amount of time required to fulfil his corporate duties.

C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s):

C.1.11 Identify any Directors who are also executives or directors of other companies that form part of the listed company group:

Name or corporate name of director	Corporate name of the group entity	Position	Do they have executive duties?
ANGEL ANTONIO DEL VALLE SUAREZ	FELGUERA IHI. S.A.	Representative of Duro Felguera on the Board of Directors.	NO

C.1.12 List any company board members who are also members of the board of directors of other companies listed on official securities markets, other than your own group, that have been reported to the Company:

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit.

Yes ☒ No ☐

Explain the rules
Article 7.6 of the Regulations of the Board of Directors stipulates that directors or representatives of a legal person director cannot be: a) Natural or legal persons that hold a directorship position at more than five (5) companies whose shares are admitted for trading on a Spanish or foreign market. b) Natural or legal persons in any circumstances of incompatibility or prohibition provided for in applicable legislation, included those that in any way have opposing interests to those of the Company or its Group.

C.1.14 Section repealed.

C.1.15 List the total remuneration paid to the Board of Directors in the year:

Board remuneration (thousands of euros)	1,061
Amount of the pension rights accumulated by current directors (thousand euro)	0
Amount of the pension rights accumulated by former directors (thousand euro)	0

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:

Name or corporate name	Position
JOSE CARLOS CUEVAS DE MIGUEL	DEPUTY GENERAL MANAGER TO THE CHAIRMAN
JESUS SALMERÓN UNTURBE	DIRECTOR OF LEGAL AFFAIRS
JUAN JOSÉ HERRERO RODRÍGUEZ	GENERAL MANAGER OF DF SERVICES AND DF INTELLIGENT SYSTEMS
FERNANDO LÓPEZ GONZÁLEZ	GENERAL MANAGER OF DF MANUFACTURING

JAVIER GARCÍA LAZA	GENERAL MANAGER DF ENERGY
LUIS MARÍA DEZA GORDO	CORPORATE DIRECTOR OF STRATEGY AND BUSINESS DEVELOPMENT
JUAN OUTEIRAL VIANA	HUMAN RESOURCES DIRECTOR
ROBERTO PEREZ LOPEZ	GENERAL MANAGER OF DF MINING & HANDLING AND DF OIL & GAS
EMILIO SEOANE FIDALGO	PURCHASING DIRECTOR
FRANCISCO ALAEZ DIEZ	DIRECTOR OF ENGINEERING AND ICT

Total remuneration received by senior management (thousands of euros)	2.536

C.1.17 List, if applicable, the identity of those directors who are likewise members of the Boards of Directors of companies that own significant holdings and/or group companies:

Detail, if appropriate, any relevant relations other than those indicated in the section above that link members of the Board of Directors with significant shareholders and/or their group companies:

C.1.18 Indicate whether any amendments have been made during the year to the Board of Directors' Regulations:

Yes ☐ No ☒

C.1.19 Describe the procedures for selecting, appointing, re-electing, evaluating and removing Directors. List the competent bodies, procedures and criteria used for each of these procedures.

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 Compensation Committee proposes the nomination or re-election of independent directors, while the Board of Directors is responsible for nominating or re-electing proprietary, executive and other external directors.

Within the framework of the process of selecting prospective candidates for seats on the Board of Directors, and notwithstanding the competencies of the General Meeting, the Nomination and Remuneration Committee will have the following authorities:

- Evaluate the competencies, knowledge and experience necessary for the Board of Directors. To this end, the Committee shall define the duties and capabilities necessary in candidates who shall fill each vacancy and evaluate the time and dedication necessary in order to efficiently fulfil their commitment.

- Submit to the Board of Directors, proposals for the appointment of independent directors for their nomination through co-option or for their submission to the General Meeting's decision, in addition to proposals for the re-election or dismissal of said directors by the General Meeting;

- Inform of any proposals for appointment of all other directors for their nomination by co-option or for their submission to the General Meeting's decision, in addition to proposals for the re-election or dismissal of said directors, by the General Meeting.

- Establish an objective regarding the representation of the least represented gender on the Board of Directors, in accordance with the doctrine enshrined in High Jurisprudence regarding "positive discrimination", and develop guidelines on how to reach said objective.

C.1.20 Explain to what extent the Board's annual evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of the modifications

The self-evaluation did not give rise to any changes.

C.1.20.bis Describe the evaluation process and the areas evaluated by the Board of Directors with the assistance, if any, of external facilitators regarding the diversity of its composition and competencies, the performance and composition of its committees, the performance of the Chairman of the Board of Directors and the Company's chief executive, and the performance and contribution of individual directors.

The Board of Directors analysed and evaluated its overall performance and that of the various Board committees, based on a report prepared by the Nomination and Remuneration Committee.

Functionally, in respect to its number of members (8), the Nomination and Remuneration Committee's report started from an analysis of the professional profile of each director, and the importance and weight of independent directors on the Board of Directors. In evaluating the suitability of each independent director for the performance of their duties on the Board of Directors and its committees, it considered that the position-duty relationship was adequate in terms of the professional-knowledge profile and the proposals made at each time.

It noted the external director who cannot be classified as independent due to the proximity of the end of his employment with the Company, indicating that his long experience in the areas in which the Company operates and his deep knowledge of the Company also make him suitable to perform his current duties, and to support the proposals and solutions presented in the various situations that have arisen.

Regarding the performance of the Executive Chairman, in accordance with the duties attributed to him as Chairman of the Board of Directors, the report highlights that he has promoted internal debate, facilitated attendance at meetings to ensure that the Board of Directors could meet in full, and ensured that Directors had information regarding the matters to be discussed before the meetings.

The Company engaged the services of an external facilitator in 2016.

C.1.20.ter Describe any business dealings that the facilitator or members of its corporate group maintains with the Company or members of its corporate group.

The external facilitator provides occasional legal advisory services to the Company.

C.1.21 Indicate the cases in which directors must resign.

Directors must tender their resignations in the circumstances provided for by law. They must also tender their resignation from the Board and, as appropriate, resign in accordance with article 24.2 of the Board Regulations in the following situations:

a) When due to circumstances they come under one of the grounds for disqualification or prohibition established in law, the Bylaws or these Regulations.
b) When they lose credibility, suitability, solvency, competency, availability or commitment to the duties necessary to be a Director of the Company.
c) When their presence on the Board may jeopardise for any reason, and directly, indirectly or through their affiliates, the loyal and diligent discharge of their duties in accordance with the corporate interest.
d) When the reasons for which they were appointed cease to exist and, in particular, when the shareholder or shareholders that proposed, required or determined their appointment, dispose, in part or in full, of their shareholding, resulting in the loss of their status as a qualifying or sufficient shareholder to justify the appointment.
e) When an independent director comes under any of the impediments provided in Article 8.1.c) of the Board of Directors' Regulations.
f) When circumstances arise that could harm the Company's name and reputation, in particular when directors are investigated for any crime or are involved in any subsequent court proceedings.

In particular, if a director is indicted or if an oral hearing is opened with respect to any of the offences indicated in company law, the Board of Directors shall open an investing promptly and, in the light of the particular circumstances, decide whether or not the Director should be called on to resign. The Board should give a reasoned account of such determinations in the Annual Corporate Governance Report.

C.1.22 Section repealed.

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?:

Yes ☐ No ☒

If applicable, describe the differences.

C.1.24 Indicate whether there are any specific requirements other than those relating to the directors, to be appointed Chairman.

Yes ☐ No ☒

C.1.25 Indicate whether the Chairman has the casting vote.

Yes ☒ No ☐

Matters where the Chairman has the casting vote
On all matters put to debate.

C.1.26 Indicate whether the Bylaws or the Board Regulations set an age limit for directors:

Yes ☐ No ☒

C.1.27 Indicate whether the Bylaws or the Board Regulations set any limit on the term of office for independent directors, apart from that established by law:

Yes ☐ No ☒

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. If so, give brief details.

Proxies must be express and in writing. In any event, an independent director may not issue a proxy to executive directors. Directors may be represented by another director through special proxy specific to each meeting. The Chairman or Secretary must be notified using any means allowed. Directors may hold more than one proxy. However, non-executive directors may only grant proxies to another non-executive director.

C.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	21
Number of board meetings without the Chairman's attendance	0

If the Chairman is an executive director, indicate the number of meetings held without an executive director present or represented and chaired by the lead director.

Number of meetings	0

Indicate the number of meetings of the various board committees held during the year:

Committee	No. of meetings
AUDIT COMMITTEE	11
NOMINATION AND REMUNERATION COMMITTEE	5

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Number of meetings with all members present	20
% of attendances of the total votes cast during the year	95.23%

C.1.31 Indicate whether the consolidated and separated financial statements submitted for authorisation for issue by the board are certified previously:

Yes ☐ No ☒

Identify, where applicable, the person(s) who certified the company's separate and consolidated financial statements prior for their authorisation for issue by the board:

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent a qualified audit report on the separate and consolidated financial statements from being presented to the General Meeting.

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 work with and learn more from then, while External Audit conducts on-site visits where the main projects are executed.

C.1.33 Is the Secretary to the Board also a director?

Yes ☐ No ☒

If the Secretary is not a director, complete the following table:

Name or corporate name of Secretary	Representative

SECUNDINO FELGUEROSO FUENTES	

C.1.34 Section repealed.

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

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, or by the persons or entities related thereto, as provided for in the Audit Act. To exercise better control over auditor independence, any engagement, other than the statutory audit, requested of the auditors requires approval by the Audit Committee.

C.1.36 Indicate whether or not the Company has changed its external auditor during the year. If so, name the outgoing and incoming auditor.

Yes ☐ No ☒

Outgoing auditor	Incoming auditor
PriceWaterhouseCoopers Auditores, S.L.	Ernst & Young, S.L.

Explain any disagreements with the outgoing auditor and the reasons for the same:

Yes ☐ No ☒

C.1.37 Indicate whether the audit firm performs non-audit work for the Company and/or its Group. If so, state the amount of fees paid for such work and the percentage they represent of the fees invoiced to the Company and/or its Group.

Yes ☒ No ☐

	Company	Group	Total
Amount of non-audit work (thousands of euros)	608	0	608
Amount of non-audit work/the total amount invoiced by the audit firm (%)	69.89%	0.00%	49.35%

C.1.38 State whether or not the audit report on the financial statement for the previous year contains any qualifications or reservations. If so, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those qualifications or reservations.

Yes ☒ No ☐

Explain the reasons
The financial statements were prepared on a going concern basis in accordance with the favourable outlook for the conclusion of the negotiation process with the financial institutions and the arrival of a strategic partner and a material uncertainty that could give rise to significant doubts surrounding the Group's ability to continue as a going concern, so that it could realise its assets and settle its liabilities for the amounts and in accordance with the classification presented in the consolidated financial statements.

C.1.39 State the number of consecutive years that the current audit firm has audited the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:

	Company	Group
Number of consecutive years	2	2
Number of years audited by the current audit firm/Number of years that the company has been audited (in %)	6.90%	6.90%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice:

Yes ☒ No ☐

Procedures

In assist them in the discharge of their duties, Directors and Board Committees may request the engagement of legal, accounting, financial or other expert advisors.

Any such appointment must necessarily relate to specific problems of certain importance and complexity that arise during the performance of their duties.

A request to engage external advisors must be presented to the Chairman of the Company.

C.1.41 Indicate and give details of any procedures for directors to receive the information they need to sufficiently in advance to prepare for the meetings of the governing bodies:

Yes ☒ No ☐

Procedures

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 one week in advance, each director is provided with financial information on the Group for 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 segment 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.1.42 Indicate and give details of procedures requiring directors to disclosure and, if necessary, resign in any cases that could harm the Company's name and reputation.

Yes ☒ No ☐

Explain the rules

See section C.1.21.

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Corporate Enterprises Act:

Yes ☐ No ☒

Indicate whether the Board of Directors has analysed the case. If so, provide a reasoned explanation of the decision taken as to whether or not the Director should continue to hold office or, if appropriate, explain the actions taken by the Board of Directors up to the date of this report or any that it plans to take.

C.1.44 Detail any significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

There are no agreements.

C.1.45 Indicate, and provide details of, all agreements between the company and officers, executives and employees who have indemnities or golden parachute clauses when they resign or are dismissed unlawfully or if the contractual relationship terminates as a result of a takeover bid or other type of transaction.

Number of beneficiaries: 5

Type of beneficiary:

Management Committee and Company Managers

Description of the agreement:

Agreements:

1.- In the event of contract termination up to five years of the contract. One year of gross salary.
2.- In 2016, the indemnity was one year of salary, decreasing by 20% each year to the end of 2019.
3- In 2017, the indemnity is one year of salary, decreasing to 70% in 2018 and 40% in 2019.
4.- In 2017, the indemnity is one year of salary, decreasing to 75% in 2018 and 50% in 2019.
5.- In 2017, the indemnity is one-and-a-half years of gross salary, decreasing to six months of salary for 2019 to 35 days of fixed salary per year of service in 2020.

Indicate whether these agreement must be reported to and/or authorised by the governing bodies of the company or its group:

	Board of Directors	General Meeting
Body authorising the clauses	Yes	No

	Yes	No
Is the General Meeting informed of the clauses?		X

C.2 Board committees

C.2.1 Provide details of all Board Committees, their members and the proportion of executive, proprietary, independent and other external directors on them:

AUDIT COMMITTEE

Name	Position	Category
FRANCISCO JAVIER GONZÁLEZ CANGA	CHAIRMAN	Independent
ELENA CABAL NORIEGA	MEMBER	Independent
JOSE MANUEL GARCÍA HERMOSO	MEMBER	Independent
INVERSIONES RÍO MAGDALENA, S.L.	MEMBER	Proprietary

% of proprietary directors	25.00%
% of independent directors	75.00%
% of other external directors	0.00%

Explain the committee's duties, describe the procedures and organisational and operational rules and summarise the main actions taken during the year.

The Audit Committee is regulated by the provisions of the Corporate Enterprises Act, the Bylaws and the Internal Regulations of the Board of Directors, the latest amendment of which was approved by the Board of Directors on 23 December 2015.

Since 28 December 2017, the Board of Directors, based on a report issued by the Nomination and Remuneration Committee, reduced the number of members of the Audit Committee to adapt to the current size of the Board of Directors. It now comprises three members, chosen among non-executive directors, and should be formed by a majority of independent directors. 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 shall resign voluntarily if not re-elected to the position of director or when so decided by the Board of Directors.

In accordance with the Internal Regulations of the Board of Directors, the Chairman of the Audit Committee shall be appointed by the Board of Directors based on a report from the Nomination and Compensation Committee from among independent Directors. The Chairman must be replaced every four (4) year and may be re-elected after one (1) year has elapsed since removal.

Francisco Javier Valero Artola was Chairman of the Audit Committee until 14 April, when he tendered his resignation. Acacio Faustino Rodríguez García took up this position on 26 April until the Annual General Meeting held on 22 June 2017. From that time, Francisco Javier González Canga was Chairman of the Committee, following his appointment on 22 June 2017 by the Board of Directors.

The Audit Committee shall meet whenever called by the Chairman or when requested by two (2) of its members and, in any event, at least four (4) times per year, within the fifteen (15) days following the end of each calendar quarter. One of the meetings shall 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.

See Appendix I, Explanatory Note 2.

Identify the member of the Audit Committee who was appointed based on his/her knowledge and experience in accounting, auditing or both, and state the number of years that the Chairman of this committee has held this position.

Name of the director with experience	JOSE MANUEL GARCIA HERMOSO
Number of years as Chairman	0

NOMINATION AND REMUNERATION COMMITTEE

Name	Position	Category
ELENA CABAL NORIEGA	CHAIRMAN	Independent
FRANCISCO JAVIER GONZÁLEZ CANGA	MEMBER	Independent
INVERSIONES SOMIO, S.L.	MEMBER	Proprietary

% of proprietary Directors	33.33%
% of independent Directors	66.67%
% of other external Directors	0.00%

Explain the committee's duties, describe the procedures and organisational and operational rules and summarise the main actions taken during the year.

The Nomination and Remuneration Committee is regulated by the provisions of the Corporate Enterprises Act, the Bylaws and the Internal Regulations of the Board of Directors, the latest amendment of which was approved by the Board of Directors on 23 December 2015.

The Nominations and Remuneration Committee does not have executive duties, but has authority to inform, advise and make proposals within its area of competency. It is formed by a minimum of three (3) and a maximum of five (5) non-executive directors, with a majority of independent directors.

Currently, and since 29 September 2016, the committee comprises three members, based on a report issued by the Nomination and Remuneration Committee, and to adapt to the current size of the Board of Directors.

In 2017, Carlos Solchaga Catalán was Chairman of the Committee until 22 June. On 23 June, independent director Ricardo Córdoba was appointed Chairman, a position he held under tendering his resignation in October 2017. Independent director Elena Cabal Noriega has been Chairman of the Committee since 14 November 2017.

Committee members were chosen among non-executive Directors, with a majority of independent Directors. Its members, particularly the Chairman, are appointed with regard to their knowledge, skills and experience in the Committee's remit.

The Committee meets whenever called by its Chairman or a majority of its members, or when required by a resolution adopted by the Company's Board of Directors. In any event, the Committee meets at least two (2) times a year on dates that enable it to analyse all the conditions and information necessary to determine annual remuneration or appointments of the members of the Board or senior executives of the Company and the Group. The Committee may take written votes without holding a meeting, provided that no member opposes such action.

See Appendix I, Explanatory Note 3.

C.2.2 Complete the following table with information on the number of women directors on board committees over the past four years:

	Number of women directors							
	2017		2016		2015		2014	
	Number	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**
AUDIT COMMITTEE	1	25.00%	0	0.00%	0	0.00%	0	0.00%
NOMINATION AND REMUNERATION COMMITTEE	1	33.33%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Section repealed.

C.2.4 Section repealed.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

Board Committees are regulated by the Bylaws and the Regulations of the Board of Directors, which are available on the Company's website in the Corporate Governance section under the Investors Area. The most relevant duties and actions falling to both committees are also set out in detail in Section H, Appendix I.

No amendments were made to the regulations governing board committees in the year. However, as explained previously, the number of members of the Audit Committee was adjusted to the Company's current needs with the appointment of a new independent member.

C.2.6 Section repealed.

D RELATED PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related party or intragroup transactions.

Procedure for reporting the approval of related party transactions

For related party transactions involving a purchase or sale that may be in competition with third parties, the related party must submit its bid to the same analysis as those presented by third parties on an equal footing. The bids shall be analysed and evaluated by the relevant department, normally Procurement, which shall present its conclusions to the Board of Directors. These types of transactions must always be approved by the Board, whether carried out directly by DF or any of its subsidiaries.

Intragroup transactions are analysed in the same manner as those indicated above and if awarded to subsidiaries, the amount of the intragroup contract is separated from the Group's total contract amount.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (thousands of euros)
FRANCISCO JAVIER VALERO ARTOLA	GLOBALTEC DESARRLLOS E INGENIERÍA, S.A.	Commercial	Collaboration agreements	6
INVERSIONES EL PILES, S.L.	AUTOS SAMA, S.A.	Commercial	Collaboration agreements	8

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:

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 case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens:

D.5 Indicate the amount of other related party transactions. 10 (thousand euros).

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 process for resolving conflicts of interest.

D.7 Is more than one group company listed in Spain?

Yes ☐ No ☒

Identify the subsidiaries listed in Spain.

Listed subsidiary

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:

Define any business dealings between the parent and listed subsidiary, and between the listed subsidiary and other group companies.

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.

Mechanisms to resolve conflicts of interest

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the scope of the Company's risk management system, including fiscal risks.

DF's risk management system is governed by the General Risk Control and Management Policy approved by the Board of Directors. This policy set outs the principles and basic guidelines for controlling and managing risks of any type to which the Company is exposed, organising the appropriate internal control and reporting systems, and the monitoring of these systems.

The core principles underpinning risk control and management at DF are:
- Integration of the vision of risk in the Company's management.
- Segregation and division among areas in charge of decision-making and those in charge of analysis, control and oversight.
- Reporting on risks and the operation of control systems with maximum transparency.
- Ensuring compliance with corporate governance rules and updating these rules in line with international best practices.

The scope of application of the risk management system is the entire company, and all employees must comply.

The Board of Directors performs the necessary actions so that all relevant risks for the Company's activities and businesses are identified, measured, managed and controlled, taking special care to ensure that the activities carried out are in line with the Company's strategic objectives, introduction maximum guarantees of protection of corporate interests, safeguarding the Group's reputation and maintaining DF's business stability and financial soundness.

E.2 Identify the bodies responsible for preparing and implementing the risk management system, including fiscal risks.

DF's Board of Directors has a function that cannot be delegated, according to article 5 of the Regulations of the Board of Directors, to determine the risk identification, control and management policy.

The Audit Committee determines the Internal Management Rules (IMR) that employees of the organisation must abide by to guarantee adequate risk management. The IMR are highly geared towards risk management and control, and establish the scope of action of the business units and corporate departments. Accordingly, they establish the responsibilities inherent in each function or unit, and limits action in areas reserved for decisions by higher bodies.

The IMR arise as a response to the analysis of the Company's enterprise risk and the Company's risk experience.

The Audit Committee relies on the Internal Audit Department to oversee compliance with the risk control and management policies, and the applicable rules and procedures. In addition, in accordance with the Crime Prevention Model in place, there is a Chief Regulatory Compliance Officer charged with management of crime prevention, and a Compliance Committee, which provides support and advice to the Regulatory Compliance Officer.

The Company has a Risk Committee, which is not a board committee. Its members include a multidisciplinary team of professionals, with representation of the Risk Department, the Finance Department, the Legal Department, and the Human Resources Department

E.3 Indicate the main risks, including fiscal, which may affect the achievement of business objectives.

The nature of the risks inherent to our activity is diverse. They can be grouped as corporate governance, market, third party, business, legal or regulatory, social and political, reputational and operational risks. Operational risks are those that have the greater direct impact on the development of DF's projects. Together, they require analysis, treatment and integrated management. Therefore, professionals specialised in various disciplines must be involved in the process of identifying risks and defining the most adequate risk management strategy.

E.4 State whether the entity has a risk tolerance level, including fiscal risk.

The Company has risk tolerance levels established at corporate level for the main types of risks.
The risk assessment process starts with the identification of risks, generally by the business lines that are exposed. Once the risk is identified, it is analysed by a multidisciplinary team. The Risk Committee is in charge of evaluating the risks identified and adopting the measures necessary to minimise both the probability of occurrence and the impact of the risk, considering:

- The definition and characteristics of the risk.
- The probability of occurrence.
- Impact variables.
- Qualitative and quantitative importance if the risk materialises.
- Mitigation controls and mechanisms used and their effectiveness.

Finally, for the types of risk identified, the necessary measures are proposed to adapt the risk to the tolerance level defined by DF.

Operational risks are evaluated and analysed before DF submits any bids, and controlled during execution of the projects once they are contracted. All points of risk detected in the bid phase are monitored, along with deviations or risks that may arise in the project's development.

E.5 Identify any risks, including fiscal, which have materialised during the year.

In 2016, no significant risks that affect the company and/or its group materialised other than those disclosed in the annual financial statements.

E.6 Explain the response and monitoring plans for the entity's primary risks, including fiscal risks.

To analyse risks, specific computer tools are in place that allow information on transactions to flow between the various business units and corporate staff services, who analyse and provide advice on the specific conditions of each transaction. These analyses lead to the detection of specific risks that must be mitigated or provisioned.

The Company's risk management is performed from various areas of competence:
- The Bids and the Operations departments of the business lines control and manage risks from the bid phase to final delivery of each project. They prepare a report on each project upon conclusion, setting out the risks and their management to minimise the chances of them reoccurring.

- The Finance Department draws up the Company's separate and consolidated financial statements and oversees the reliability and accuracy of the information.
- The Audit Committee and the Internal Audit Department, as provided for in the Regulations of the Board of Directors, supervise the effectiveness of the risk control and management systems, and the preparation and presentation of the Company's financial information.

- The Risk Committee analyses, evaluates and decides on the Company's operational risks.

DF understands that the following steps are crucial for correct management or risks:
- Identify, correctly and on an ongoing basis, the main risks that could affect the Company.
- Analyse these risks in accordance with the overall impact on the Company's activities.
- Establish an appropriate structure of policies and rules for adequate risk control and management.
- Correctly monitor the potential impacts of the risks identified.
- Maintain correct internal control over compliance with internal policies and regulations.
- Assess the effectiveness of the application of risk control and management systems.
-
- DF's risk control and management policies and procedures are constantly reviewed and improved in accordance with the activities it carries out and the market where the Company operates. The Company's risk map is reviewed and updated regulatory, and the risks and their probability of impact on the Company are analysed and evaluated.

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the entity.

F.1 Entity's control environment

State whether at least the following exists and, if so, describe the main characteristics:

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 Board of Directors is responsible for the existence of an adequate and effective ICFR. Senior management, generally through the business lines and the economic-financial function, is responsible for its design, implementation and functioning. The Audit Committee is the body responsible for supervising ICFR. To discharge this duty, it has an internal audit function which, in compliance with the annual action plan, evaluates the efficiency of ICFR and reports regularly any weaknesses detected for their resolution.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

The departments and/or mechanisms in charge of: (i) designing and reviewing the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) ensuring procedures are in place so this structure is communicated effectively throughout the entity.

Yes, they exist.

- Code of conduct, approving body, level of dissemination and instruction, principles and values covered (stating whether there are specific references to record keeping and the preparation of financial information), body in charge of analysing non-compliance and proposing corrective or disciplinary action.

- There is a code of conduct approved by the Board of Directors applicable to all employees, which has been adequately communicated to them and is available on the Intranet and corporate website, and has a section on transparency in the preparation of financial information in the following terms:

As a listed company, Duro Felguera must make special efforts to ensure that the information disclosed to the markets is truthful, thereby protecting the interests of current and potential investors. Duro Felguera and its employees undertake to adopt all necessary measures to ensure that the transactions carried out by the Company are faithfully recorded. To do so, employees must be aware of -and assume responsibility for- the impact of business transactions on accounting information, and must act with transparency and report, in due time and form, any circumstance that could affect that transparency to those responsible for the preparation of this information".

- 'Whistle-blowing' channel, for reporting to the Audit Committee any financial or accounting irregularities, as well as potential breaches of the code of conduct and irregular activities within the organisation, stating whether reports made through this channel are confidential.

The code of conduct itself makes reference to the whistle-blowing channel for reporting incidents, or voicing concerns or doubts under “Doubts and Incidents”, making the following channels available to employees:

- Oral queries with the line manager, or with the Head of Human Resources or any member of that department.

- The whistle-blowing channel should be used for incidents related to any conduct considered criminal.

Employees may use the whistle-blowing channel for reporting incidents by sending an email to dfai.canaldenuncias@durofelguera.com. This channel is managed by the Chief Compliance Officer. In any event, incidents shall be treated with all legal assurance, especially the presumption of innocence, confidentiality and non-retaliation.

- Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

In the event that legislative changes affecting the accounting of the type of transactions carried out by Duro Felguera, training is provided to the employees responsible for preparing financial information. In addition, there is a Consolidation and Reporting Department, with staff specialised in accounting and which acts as a technical department. For complex transactions, external experts are engaged to provide an opinion. There is also a corporate accounting manual that provides for the uniform application of accounting policies and standards.

F.2 Assessment of financial reporting risks

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- The process exists and is documented.

The risk identification process is carried out using the method described in Auditing Standard 5 “top-down risk-based approach”. Accordingly, the approach used by Duro Felguera is that which is recommended under US standards for companies subject to the Sarbanes Oxley Act, although Duro Felguera is not subject to this legislation and, therefore, does not have a specific external audit report on internal control.

Under this approach, it is important to first evaluate the company’s control environment, the tone-at-the-top, the existence of entity-level rules and procedures, the risks that those rules are intended to cover, adequate segregation of duties, effective committees, whistle-blowing channel, supervisory controls, etc. At a company like Duro Felguera, which engages in the execution of major products, all those risks that are evaluated before contracting will result in a lower risk of error in the preparation of the financial statements. A simple customer solvency analysis before contracting, for example, will probably reduce the risk of unrecorded material doubtful balances.

Risks that, while inherent to the type of transactions carried out by the Company, could have an impact on the preparation of financial information, are also identified. The risk is measured in terms of the probability of occurrence and the potential impact. To do so, both qualitative (accounting complexity of the transaction, technical capability of the accounting staff, number of transactions that make up

the balances -fragmentation of the balances- vulnerability of assets to risk of changes in value, fraud, subjectivity of measurement, etc.) and quantitative (the balance of the accounts) variables are taken into account.

- The process covers all financial reporting objectives, (existence and occurrence; completeness; assessment; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.

  All of these analyses will define the scope for evaluating the processes and related controls, and which reasonably guarantee the reliability of the financial information prepared. This scope serves as a basis for planning the internal audit assignments designed to assess ICFR.

  A number of internal audits were carried out in 2016, giving rise to recommendations for improvement, some of which have already been addressed, and other currently being resolved, although in no case were these weaknesses with a potentially significant impact.

- A specific process is in place to define the scope of consolidation, with reference, *inter alia*, to the possible existence of complex corporate structures, holding companies or special purpose vehicles.

  Yes, it exists. Whenever there is a change in the scope of consolidation in accordance with the information received from the Legal Department, the control registers are updated.

- The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

  Yes, they are addressed.

- Which of the entity's governing bodies is responsible for overseeing 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 the risk management systems, as well as discussing with the auditors the significant weaknesses of the internal control system uncovered during the audit, without jeopardising the auditor's independence.

F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

The Company has documents describing the processes and a control matrix. However, they are being transformed completely due to the new requirements of implementing a new ERP, the replacement of manual processes and controls with automatic mechanisms, the integration of information, the ability to extract new reports for better control of information, etc.

The controls are expected to comply with the CAVR objectives (completeness, accuracy, validity, restricted access).

F.3.2. Internal control policies and procedures for IT systems (e.g. access security, change control, system operation, continuity and segregation of duties) that support the entity's key processes regarding the preparation and publication of financial information.

Duro Felguera has implemented the necessary measures to comply with best market practices regarding internal control over reporting systems. At access control level, the Company has a firm policy of control of passwords to the various information systems that must be changed regularly. Regarding change control, DF has implemented best IT practices for controlling and approving changes in information systems, thereby limiting the adverse effects of inputting and maintaining historical information of changes made, in addition to enabling to prior change levels. The Company has gradually implemented automatic processes to replace previous manual processes. There is strict control over access to the Company's datacenter by IT personnel, and high availability and restraint systems for the critical systems of the Company. External communications from the main corporate information systems are performed through SSL encryption. The Company conducts regular tests for intrusion and ethical hacking, in addition to annual IT security checks.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

Noteworthy is that 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 a renowned accounting and audit firm for the preparation of financial information in foreign locations. Accordingly, compliance is up to professionals with proven knowledge of local requirements who belong to an internationally recognised firm. Nevertheless, this firm operates under the close supervision and control of Duro Felguera professionals, who verify the supporting documentation of the transactions recorded that underlying the financial statements.

F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1. A specific function in charge of defining, maintaining and updating accounting policies (accounting policies area or department) and resolving doubts or disputes over their interpretation, maintaining fluid communications with the persons responsible for operations at the organisation, as well as an up-to-date accounting policy manual that has been communicated to the units through which the entity operates.

Yes, it exists. Duro Felguera provides all employees with a corporate accounting manual to facilitate the uniform application of corporate accounting policies and standards.

F.4.2. Mechanisms for capturing and preparing financial information using uniform formats, applicable and to be used by all units at the entity or the group, and support the main financial statements and notes thereto, as well as the information disclosed on ICFR.

All business units use standard reporting templates for the preparation of the main consolidated financial statements.

F.5 Monitoring of the system's operation

State whether at least the following exists and, if so, describe the main characteristics:

F.5.1. The ICFR monitoring activities undertaken by the Audit Committee, and whether the entity has an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the entity has an action plan specifying corrective measures, and whether it has taken into consideration their impact on the financial information.

The Duro Felguera Group has an internal audit function, whose main purpose is to oversee that the internal control and risk management systems, and other internal procedures operate correctly. It is organised as a separate area, reporting directly to the Audit Committee. As set out in its charter, which was approved by the Board of Directors and defines the nature, activities, organisation, operation, and basic powers and responsibilities of the function, the competences of the Audit Committee include supervising the reliability of the accounting and management financial information, as well as recording procedures, the information, accounting and data processing systems and, especially, the reliability of regulated financial information thatthe Company must disclose periodically as a listed company, as well as the Group's internal control over financial reporting (ICFR).Activities related to supervision of the internal control system carried out by Internal Audit are set out in the Internal Audit Annual Plan approved by the Audit Committee.The Audit Committee's activates, both oversight regarding ICFR and the other areas of its remit, are recorded in the minutes of its meetings.

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses uncovered during their review of the financial statements or other assignments, to the entity's senior management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

The Audit Committee and the external auditor meeting regularly to discuss the weaknesses uncovered in the audit assignments (in accordance with TAS). The remediation plans arise from these meetings.

F.6 Other relevant information

N/A

F.7 External auditor

report State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The external auditor has not been asked to issue a report in the ICFR information disclosed to the markets in 2016.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with the recommendations of the Good Governance Code of Listed Companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share

purchases on the market.

Compliant ☒ Explain ☐

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:
   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.

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

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

   a) Changes taking place since the previous annual general meeting.
   b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant ☒ Partially compliant ☐ Explain ☐

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.

   This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Compliant ☒ Partially compliant ☐ Explain ☐

5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

   When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant ☐ Partially compliant ☐ Explain ☐

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.

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☐ Explain ☒

Until 2017, participation at the general meeting was high, so it was considered that broadcasting the general meetings on line would not increase shareholder participation significantly.

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.

Compliant ☒ Partially compliant ☐ Explain ☐

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant ☒ Partially compliant ☐ Explain ☐

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of Directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company’s best interest, understood as the creation of a profitable business that promotes its

sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Compliant ☒ Partially compliant ☐ Explain ☐

13. The Board of Directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Compliant ☒ Explain ☐

14. The Board of Directors should approve a director selection policy that:

a) Is concrete and verifiable;

b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the Nomination Committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The Nomination Committee should run an annual check on compliance with the director selection policy and set out its findings in the Annual Corporate Governance Report.

Compliant ☐ Partially compliant ☒ Explain ☐

There are no selection procedures that are a barrier or could be a barrier to the selection of women directors. When seeking a certain professional profile, the Company takes into consideration the professional profile and only evaluates the profile that is most adequate to the corporate interests, without taking into account the gender of the candidate. Where two profiles are objectively similar, priority will be given to the least represented gender.

According to the Company's Director Selection Policy and to comply with the goal of having 30% of total board places occupied by women directors in 2020, at the 2017 Annual General Meeting, Elena Cabal Noriega was appointed as independent director at the proposal of the Nomination and Remuneration Committee. As noted, of the eight members of the Board of Directors, four are proprietary directors, which appoint the legal person that best suits their interests. Among independent directors, where the Nomination and Remuneration Committee has greater power of proposal and appointment, 33.33% of its members are women.

15. Proprietary and independent directors should constitute an ample majority on the Board of Directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant ☒ Partially compliant ☐ Explain ☐

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Compliant ☒ Explain ☐

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Compliant ☒ Explain ☐

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

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

Compliant ☒ Partially compliant ☐ Explain ☐

19. Following verification by the Nomination Committee, the Annual Corporate Governance Report should disclose the reasons for the appointment of proprietary Directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latters' number should be reduced accordingly.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where they find just cause, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

    The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Compliant ☒ Explain ☐

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

    The moment a director is indicted or tried for any of the offences stated in company legislation, the Board of Directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the Annual Corporate Governance Report.

Compliant ☒ Partially compliant ☐ Explain ☐

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

    When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

    The terms of this recommendation also apply to the Secretary of the Board, even if he or she is not a director.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the Annual Corporate Governance Report.

Compliant ☐ Partially compliant ☐ Explain ☒ Not applicable ☐

In 2017, two directors gave up their place on the board before their tenure expired. Section C.1.9. explains the reasons provided by the directors for their resignation.

25. The Nomination Committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The Board of Directors regulations should lay down the maximum number of company boards on which directors can serve.

Compliant ☒ Partially compliant ☐ Explain ☐

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Compliant ☒ Partially compliant ☐ Explain ☐

27. Director absences should be kept to a strict minimum and quantified in the Annual Corporate Governance Report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Compliant ☒ Partially compliant ☐ Explain ☐

28. When directors or the Secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Compliant ☒ Partially compliant ☒ Explain ☐

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant ☐ Explain ☐ Not applicable ☒

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the Chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Compliant ☒ Partially compliant ☐ Explain ☐

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Compliant ☒ Partially compliant ☐ Explain ☐

33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by law and the company's Bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's Chief Executive Officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Compliant ☒ Partially compliant ☐ Explain ☐

34. When a lead independent director has been appointed, the Bylaws or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of directors in the absence of the Chairman or Vice Chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the Chairman's succession plan.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

35. The board Secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant ☒ Explain ☐

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

a) The quality and efficiency of the board's operation.

b) The performance and membership of its committees.

c) The diversity of board membership and competences.

d) The performance of the Chairman of the Board of Directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the Board of Directors, while that of the board itself should start from the report of the Nomination Committee.

Every three years, the Board of Directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the Nomination Committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the Annual Corporate Governance Report.

The process followed and areas evaluated should be detailed in the Annual Corporate Governance Report.

Compliant ☒ Partially compliant ☐ Explain ☐

37. When an Executive Committee exists, its membership mix by director class should resemble that of the board. The Secretary of the Board should also act as Secretary to the Executive Committee.

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

38. The board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the committee's minutes.

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

39. All members of the Audit Committee, particularly its Chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Compliant ☒ Partially compliant ☐ Explain ☐

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit Committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive Chairman or the Chairman of the Audit Committee.

Compliant ☒ Partially compliant ☐ Explain ☐

41. The head of the unit handling the internal audit function should present an annual work programme to the Audit Committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

42. The Audit Committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

    a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

    b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

    c) 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.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure 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.

Compliant ☒ Partially compliant ☐ Explain ☐

43. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant ☒ Partially compliant ☐ Explain ☐

44. The Audit Committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Explain Not applicabl

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

45. Risk control and management policy should identify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off- balance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) The measures in place to mitigate the impact of risk events should they occur.

d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Compliant ☒ Partially compliant ☐ Explain ☐

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the Audit Committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) 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.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the Board of Directors.

Compliant ☐ Partially compliant ☒ Explain ☐

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.

However, the Company has a Risk Committee focused particularly on assessing commercial-related risks. Accordingly, it should be involved in assessing risks arising from the following operations:

- Risk in commercial offers
- Guarantees of the parent company
- Creation or acquisition of companies
- Other actions which DF or subsidiaries are legally obliged to perform outside ordinary transactions carried out related to its business, which in any event must be reported to and approved by the Risk Committee beforehand.

47. Appointees to the Nomination and Remuneration Committee - or of the Nomination Committee and Remuneration Committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Compliant ☒ Partially compliant ☐ Explain ☐

48. Large cap companies should operate separately constituted Nomination and Remuneration Committees.

Compliant ☐ Explain ☐ Not applicable ☒

49. The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any Director may approach the Nomination Committee to propose candidates that it might consider suitable.

Compliant ☒ Partially compliant ☐ Explain ☐

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on director and senior officers' pay contained in corporate documents, including the Annual Directors' Remuneration Statement.

Compliant ☒ Partially compliant ☐ Explain ☐

51. The Remuneration Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant ☒ Partially compliant ☐ Explain ☐

52. The terms of reference of supervision and control committees should be set out in the Board of Directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

b) They should be chaired by independent directors.

c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the Audit Committee, the Nomination Committee, the Corporate Social Responsibility Committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

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

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

c) Periodically evaluate 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.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant ☒ Partially compliant ☐ Explain ☐

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant ☒ Partially compliant ☐ Explain ☐

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Compliant ☒ Partially compliant ☐ Explain ☐

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant ☒ Explain ☐

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant ☐ Partially compliant ☐ Explain ☒

The possibility of granting shares or share options is provided for in the Bylaws and the Director Remuneration Policy approved by the Annual General Meeting. However, it is not applied at present.

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report, provided that they are relevant and non-reiterative.

   Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different from that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable, identify the Code and date of adoption.

Other relevant information

1. Signing of the standstill agreement

On 8 July 2017, the Company filed price-sensitive information disclosing the signing of a standstill agreement with Banco Santander, S.A., Santander de Leasing, S.A., E.F.C., Caixabank, S.A., Banco Sabadell, S.A. and Banco Popular Español, S.A., to which Bankia, S.A. and Banco Bilbao Vizcaya Argentaria, S.A. subscribed. The period of the agreement has been renewed successively. Currently, it is renewed until 15 April 2018, while negotiations are in progress over the maturity of the debt and trade guarantees.

2. Notification of lawsuit

On 14 December 2017, the Company was notified of the initiation of proceedings by the Central Examining Court based on a suit filed by the Special Prosecutor against corruption, against the Company and former chairmen Mr. Torres and Mr. del Valle, alleging acts that could be classified as international corruption. In a price-sensitive information disclosure dated 29 December 2017, evaluating the fact, the Company considered that the circumstances were not such that the crimes alleged by the Prosecutor could have been committed.

The Company has launched an internal investigation in accordance with the procedures applicable to this type of situation (Regulation 537/2014 of the European Parliament and of the Council), to clarify the events. In the opinion of the Company's lawyers and directors, although the investigation has not produced evidence of liability for the Company, since the process in the early stages, the directors considered that, based on the information available to the 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 which, notwithstanding its right of defence, the Company is willing to cooperate.

The accompanying appendix to this report contains the following explanatory notes:

Explanatory note 1.- Section A. Conditions and terms granted by the General Meeting to the Board of Directors to issue, buy-back or transfer treasury stock.

Explanatory note 2.- Section C.1.2. Complete the following table with details of the members of the board.

Explanatory note 3.- Section C.2.1. Provide details of all Board Committees, their members and the proportion of executive, proprietary, independent and other external directors on them.

Explanatory note 4.- Section C.2.1. Audit Committee Explain the committee's duties, describe the procedures and organisational and operational rules and summarise the main actions taken during the year.

Explanatory note 5.- Section C.2.1. Audit Committee Identify the member of the Audit Committee who was appointed based on his/her knowledge and experience in accounting, auditing or both, and state the number of years that the Chairman of this committee has held this position.

Explanatory note 6.- Section C.2.1. Nomination and Remuneration Committee.

Explanatory note 7.- Section C.2.1. Nomination and Remuneration Committee: Explain the committee's duties, describe the procedures and organisational and operational rules and summarise the main actions taken during the year

This Annual Corporate Governance Report was approved by the Board of Directors of the Company on 13 March 2018.

Indicate whether any directors voted against or abstained from voting on approval of this Report.

Yes ☒ No ☐

Name or corporate name of director who voted against the approval of this Report:

Reasons (voted against, abstention, non-attendance):

Voted against

Explain the reasons:

Essential disagreement with the content.

Name or corporate name of director who voted against the approval of this Report

INVERSIONES EL PILES, S.L.

Reasons (voted against, abstention, non-attendance):

Voted against

Explain the reasons:

Essential disagreement with the content.

Name or corporate name of director who voted against the approval of this Report

ANGEL ANTONIO DEL VALLE SUAREZ

Reasons (voted against, abstention, non-attendance):

Voted against

Explain the reasons:

Essential disagreement with the content.

H.- OTHER INFORMATION OF INTEREST

APPENDIX I

EXPLANATORY NOTES
CONTENT OF EXPLANATORY NOTES:

Explanatory note 1.- Section A. Conditions and terms granted by the General Meeting to the Board of Directors to issue, buy-back or transfer treasury stock.

Explanatory note 2.- Section C.1.2. Complete the following table with details of the members of the board.

Explanatory note 3.- Section C.2.1. Provide details of all Board Committees, their members and the proportion of executive, proprietary, independent and other external directors on them.

Explanatory note 4.- Section C.2.1. Audit Committee. Explain the committee's duties, describe the procedures and organisational and operational rules and summarise the main actions taken during the year.

Explanatory note 5.- Section C.2.1. Audit Committee. Identify the member of the Audit Committee who was appointed based on his/her knowledge and experience in accounting, auditing or both, and state the number of years that the Chairman of this committee has held this position.

Explanatory note 6.- Section C.2.1. Nomination and Remuneration Committee.

Explanatory note 7.- Section C.2.1. Nomination and Remuneration Committee: Explain the committee's duties, describe the procedures and organisational and operational rules and summarise the main actions taken during the year.

Explanatory note 1

Section A.9. Conditions and terms granted by the General Meeting to the Board of Directors to issue, buy-back or transfer treasury stock.

1.- Shareholders at a General Meeting held on 19 June 2014 delegated authority to the Board of Directors, for a period of five years, to: increase share capital, and issue exchangeable or convertible bonds, and warrants.

The resolutions adopted were as follows:

a) To increase share capital under the terms and conditions of Article 297.1.b) of the Corporate Enterprises Act, over a maximum period of five years, with authority to waive pre-emptive subscription rights.

The Board of Directors, in the broadest and most effective manner possible under the law and in use of the power vested in accordance with Article 297.1 of the Corporate Enterprises Act, wishes to request authorisation from the General Meeting to, within a maximum period of five years from the date of the General Meeting, to increase capital, in one or several stages, as the Board of Directors deems necessary or advisable, by a maximum amount equivalent to half of the Company's existing share capital at the date of General Meeting at which this authorisation is granted, i.e. €40 million, and without any need to call or obtain a subsequent resolution from shareholders at a General Meeting, by issuing new ordinary shares, even with a fixed or variable share premium, with pre-emptive subscription rights for existing shareholders on the date on which the resolution to increase share capital is adopted and, in any event, paid in through monetary contributions in the amount of the capital increase or capital increases agreed under this authorisation, and expressly establishing the possibility of incomplete subscription of shares issued in accordance with Article 311.1 of that Law.

b) To delegate authority to the Board of Directors to issue, on behalf of the Company, in one or several stages: (i) plain vanilla or subordinated bonds and debentures, promissory notes, and other similar fixed-income securities; and (ii) bonds and/or debentures that are convertible into new shares of the Company and or/exchangeable for shares of the Company, as well as warrants for newly issued or outstanding shares of the Company. In the case of the issue of convertible debentures and/or bonds and warrants for new shares, there is an express authorisation to waive the pre-emptive subscription rights of shareholders. Establishment of the criteria for determining the terms and types of conversion. Delegation of powers.

Delegation to the Board of Directors, in accordance with the Articles 297.1.b), 401 et seq, 417 and 511 of the Corporate Enterprises Act and Article 319 of the Companies Register Regulations (Reglamento del Registro Mercantil), of the authority to issue marketable securities in the follow terms and conditions:

1. <u>Securities to be issued</u>

The securities covered by this delegation may be:

a) plain vanilla or subordinated bonds or debentures, promissory notes, and other similar fixed-income securities;

b) bonds and/or debentures that are convertible into new shares of the Company and or/exchangeable for shares of the Company, as well as warrants for newly issued or outstanding shares of the Company.

2. <u>Term of the delegation</u>

The securities covered by this authority may be issued in one or several stages within a maximum period of five (5) years from the date of adoption of this resolution.

3. *Maximum amount of the delegation*

a) The total maximum amount of the issue or issues of plain vanilla or subordinated bonds or debentures, or other similar fixed-income securities other than promissory notes covered by this delegation shall be €50,000,000, or the equivalent amount in any other currency.

b) The outstanding balance of promissory notes issued under the scope of this authorisation may not exceed €50,000,000, or the equivalent amount in any other currency, at any time, irrespective of limit established in paragraph (a) above.

c) c) The maximum amount of the issue or issues of exchangeable and/or convertible debentures and/or bonds, as well as warrants, shall be €150,000,000, irrespective of the preceding limits.

2.- The Company's Board of directors is authorised to carry out the derivative acquisition of treasury shares or shares of subsidiaries in accordance with Article 146 et seq of the Corporate Enterprises Act. Delegation of powers.

Shareholders at a General Meeting held on 22 June 2017 vested power in the Board of Directors for the derivative acquisition of shares of the Company to be held as treasury shares and the sale of treasury shares, within a period of five years.

The General Meeting authorised the Board of Directors to, within a period of no more than five (5) years, and subject to the terms and conditions established in Articles 146, 509 et seq of the Corporate Enterprises Act, acquire for consideration and through any means allowed by law, in one or several stages, treasury shares up to a maximum of 10% of the Company's share capital or the maximum amount applicable in accordance with legislation in force at the time of acquisition, without the par value of the shares directly or indirectly acquired by the Company, taken together with any shares already owned by it and its subsidiaries, exceeding 10% of the subscribed capital, or any other legal limit. The minimum price shall by one euro (€1) and the maximum price eighteen euros (€18).

In 2014, the Board of Directors approved an internal rule on discretionary sales and purchases of treasury shares in line with the recommendation issued by the Spanish National Securities Commission (Comisión Nacional del Mercado de Valores) dated 18 July 2013.

Explanatory note 2

Section C.1.2. Complete the following table with details of the members of the board:

Changes in the composition of the board of directors in 2017:

Until 14 April 2017

Director	Representative	Director category	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
Ángel Antonio del Valle Suárez		Proprietary	Chairman	20110623	20110623	General meeting resolution
Inversiones Somió, S.L.	Juan Gonzalo Álvarez Arrojo	Proprietary	Director	20030529	20110623	General meeting resolution
Inversiones Río Magdalena, S.L.	María Teresa Arias Zapico	Proprietary	Deputy Chairman	20110623	20110623	General meeting resolution
Inversiones El Piles, S.L.	Javier Sierra Villa	Proprietary	Director	20030626	20110623	General meeting resolution
Francisco Javier Valero Artola		Independent	Director	20110623	20110623	General meeting resolution
Carlos Solchaga Catalán		Independent	Director	20110720	20110720	General meeting resolution
Acacio F. Rodríguez		Independent	Director	20050525	20110623	General meeting resolution
Javier González Canga		Other external	Director	20140619	20140619	General meeting resolution

From 26 April 2017 to 22 June 2017:

Director	Representative	Director category	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
Ángel Antonio del Valle Suárez		Proprietary	Chairman	20110623	20110623	General meeting resolution
Inversiones Somió, S.L.	Juan Gonzalo Álvarez Arrojo	Proprietary	Director	20030529	20110623	General meeting resolution
Inversiones Río Magdalena, S.L.	María Teresa Arias Zapico	Proprietary	Deputy Chairman	20110623	20110623	General meeting resolution
Inversiones El Piles, S.L.	Javier Sierra Villa	Proprietary	Director	20030626	20110623	General meeting resolution
Ricardo Córdoba		Independent	Director	20170426	20110623	Board of directors through co-option
Acacio F. Rodríguez		Independent	Director	20050525	20110623	General meeting resolution
Carlos Solchaga Catalán		Independent	Director	20110720	20110720	General meeting resolution
Javier González Canga		Other external	Director	20140619	20140619	General meeting resolution

From 22 June 2017 to 17 October 2017:

Director	Representative	Director category	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
Ángel Antonio del Valle Suárez		Proprietary	Chairman	20110623	20170622	General meeting resolution
Inversiones Somió, S.L.	José Manuel López Vázquez	Proprietary	Director	20030529	20170622	General meeting resolution
Inversiones Río Magdalena, S.L.	María Teresa Arias Zapico	Proprietary	Deputy Chairman	20110623	20170622	General meeting resolution
Inversiones El Piles, S.L.	Javier Sierra Villa	Proprietary	Director	20030626	20170622	General meeting resolution
Ricardo Córdoba		Independent	Director	20170426	20170622	General meeting resolution
Acacio F. Rodríguez		Other external	Director	20050525	20170622	General meeting resolution
F. Javier González Canga		Independent	Director	20140619	20140619	General meeting resolution
Elena Cabal Noriega		Independent	Director	20170622	20170622	General meeting resolution

From 17 October 2017 to 24 November 2017:

Director	Representative	Director category	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
Ángel Antonio del Valle Suárez		Proprietary	Chairman	20110623	20170622	General meeting resolution
Inversiones Somió, S.L.	José Manuel López Vázquez	Proprietary	Director	20030529	20170622	General meeting resolution
Inversiones Río Magdalena, S.L.	María Teresa Arias Zapico	Proprietary	Deputy Chairman	20110623	20170622	General meeting resolution
Inversiones El Piles, S.L.	Javier Sierra Villa	Proprietary	Director	20030626	20170622	General meeting resolution
Acacio F. Rodríguez		Other external	Director	20050525	20170622	General meeting resolution
F. Javier González Canga		Independent	Director	20140619	20140619	General meeting resolution
Elena Cabal Noriega		Independent	Director	20170622	20170622	General meeting resolution

Explanatory note 3

Section C.2.1. Provide details of all Board Committees, their members and the proportion of executive, proprietary, independent and other external directors on them:

AUDIT COMMITTEE

The composition of the Audit Committee changed in 2017, as follows:

Until 14 April 2017, when Francisco Javier Valero Artola tendered his resignation as independent director, the composition of the Audit Committee was as follows:

Name	Position	Category
Francisco Javier Valero Artola	Chairman	Independent
Acacio Faustino Rodríguez García	Member	Independent
Inversiones Río Magdalena, S.L.	Member	Proprietary

% of proprietary directors 33.33%
% of independent directors 66.66%
% of other external directors 0.00%

On 26 April 2017, the Board of Directors, on a proposal by the Nomination and Remuneration Committee, resolved, unanimously, to appoint by co-option Ricardo Córdoba as Independent Director. The Audit Committee's composition was then as follows:

Name	Position	Category
Acacio Faustino Rodríguez García	Chairman	Independent
Carlos Solchaga Catalán	Member	Independent
Inversiones Río Magdalena, S.L.	Member	Proprietary

% of proprietary directors 33.33%
% of independent directors 66.66%
% of other external directors 0.00%

At the General Meeting held on 22 June 2017, the company's directors were appointed and/or re-appointed, resulting in a change in the composition of the Audit Committee to the following:

Name	Position	Category
Francisco Javier González Canga	Chairman	Independent
Elena Cabal Noriega	Member	Independent
Inversiones Río Magdalena, S.L.	Member	Proprietary

% of proprietary directors 33.33%
% of independent directors 66.66%
% of other external directors 0.00%

On 28 December, the Board of Directors agreed to increase the number of members by one, and appointed as member of the Audit Committee, independent director Mr. García Hermoso. The composition of the Audit Committee was then as shown in section C.2.1 of the report.

Explanatory note 4

Section C.2.1. Audit Committee. Explain the committee's duties, describe the procedures and organisational and operational rules and summarise the main actions taken during the year.

(Cont.)

Functions:

1. The Audit Committee should have the following functions over and above those attributed to by law, the Bylaws or these Regulations, or those assigned by the Board of Directors:

    a) Inform the General Meeting of any issues that may arise as regards affairs for which the committee is responsible and, in particular, regarding the outcome of the audit, explaining how it has contributed to the integrity of financial information and the role that the Committee has played during this process.

    b) Supervise the efficiency of the Company's internal controls, internal audit and risk management systems, in addition to discussing with the accounts auditor any significant weaknesses in the internal control system detected in the course of the audit, without compromising its independence. To this end, and where appropriate, recommendations or proposals may be submitted to the Board of Directors and the corresponding time frame for follow-up activities.

    In particular, the Company shall have a risk control and management unit, under the supervision of the Audit Committee, to, *inter alia*, ensure that risk control and management systems are functioning correctly and, specifically, that major risks the Company is exposed to are correctly identified, managed and quantified; participate actively in the preparation of risk strategies and in key decisions about their management; and ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the Board of Directors.

c) Monitor the preparation and presentation of the required 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, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

d) Monitor the independence of the unit handling the internal audit function, which shall report functionally to the Chairman of the Committee and oversee that the internal control and reporting systems function properly; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the Company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

   The head of the unit handling the internal audit function shall present an annual work programme to the Committee, inform it of any incidents arising during its implementation and submit an activities report at the end of each year.

e) 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.

f) Establish appropriate relationships with the external auditor to receive information on issues that may threaten his/her independence, to be analysed by the Committee, and any other issues related to the process of auditing financial statements. Furthermore, when appropriate, authorise services other than those prohibited under applicable legislation, as well as the other communications stipulated in audit legislation and technical auditing standards. In all cases, an annual statement must be received from the external auditors, regarding their independence with regards to their relationship with the entity or directly or indirectly related entities, in addition to detailed information on an individual basis about any type of payments received from these entities by the external auditor or by persons or entities related to them, pursuant to the regulations on auditing activities, ensuring that the Company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

   In this respect, the Committee shall ensure that the remuneration of the external auditor does not compromise its quality or independence.

g) Ensure that the Company notifies any change of external auditor to the Comisión Nacional del Mercado de Valores as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

h) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

i) Ensure that the external auditor has a yearly meeting with the Board of Directors in full to inform it of the work undertaken and developments in the Company's risk and accounting positions.

j) Ensure fulfillment of the audit engagement, requiring that the auditor's opinion on the financial statements and the content of the report are drafted clearly and precisely.

k) Issue on an annual basis, prior to the issuance of the audit report on the financial statements, a reporting containing an opinion regarding whether the independence of auditors and audit firms has been compromised. This report shall be published on the Company's website sufficiently in advance of the Annual General Meeting, and must contain, in all cases, a reasoned evaluation of the provision of each and every additional service referenced in the previous point, considering each service individually and jointly, separate to the statutory audit and in relation to the system of independence and regulations governing auditing activities.

l) Inform the Board of Directors, with prior notice, about all matters foreseen in law, the Bylaws and the Regulations of the Board of Directors; in particular those regarding:

1º. Financial information that the Company must periodically make public;

2º. The creation or acquisition of shares in special purpose entities or that are registered in countries or territories considered tax havens; and

3º. 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.

4º. Fundamental changes or corporate transactions the Company is planning, their economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

m) Evaluate the findings of each audit and the responses by the management team to the recommendations made by the auditors.

n) Strive to ensure that the Board of Directors can present the Company's accounts 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.

o) Mediate in the case of discrepancies between the opinions of the management team and the auditors with respect to the principles and standards applicable to the preparation of the financial statements.

p) Inform about proposals to amend any accounting standards and principles suggested by senior management, as well as any required by law.

q) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities in the Company.

r) Supervise the Internal Codes of Conduct and regulatory compliance not expressly attributed to another Committee or to the Company's Board of Directors. In this respect, the Audit Committee shall:

   i. Determine the internal standards and procedures necessary to ensure the monitoring of the code of conduct and regulatory compliance in the various areas of the Company, and ensuring that they remain up to date.

   ii. Inform, prior to approval by the Board of Directors, the General Code of Conduct at the Company and its Group, the Internal Code of Conduct in Securities Markets and the Internal Rules for the Chief Compliance Officer of the Company.

   The Committee shall also report any amendments to these standards or principles, or implementing regulations, before they are submitted for approval by the Board.

   iii. Inform, before presentation to the Board of Directors, any internal control procedures and standards set out in the General Code of Conduct that the Chief Compliance Officer lays before the Company's Board of Directors for approval.

   iv. Evaluate all aspects of the non-financial risks the company is exposed to (including operational, technological, legal, social, environmental, political and reputational risks), providing this is not expressly attributed to another Committee.

s) Perform any other duties entrusted to it by the Board of Directors.

The provisions of e), f) and k) above shall be understood to be without prejudice to auditing regulations.

2. The Audit Committee shall prepare an annual activities report, which shall be used as a basis for the evaluation by the Board of Directors, and may be published on the Company's website sufficiently in advance of the Ordinary General Meeting.

Main actions in the year:

- Proposed appointment of the Head of Internal Audit.
- Analysis of the report on external auditor independence.
- Preparation of the report on related party transactions carried out in 2016.
- Examination and proposal of the 2016 financial statements to be authorised for issue by the Board of Directors.
- Examination and proposal of the report to be sent to the National Securities Commission for the year ended 31 December 2016.
- Examination and proposal to the Board of Directors regarding the Annual Corporate Governance Report.
- Analysis of the system of internal control over financial reporting. Based on the findings, major actions were undertaken to transform the organisation in in terms of the aspects classified in the analysis as a risk.
- Study and approval of the 2017 Internal Audit Plan.
- Meeting with the external audit to review the close of the first half of 2017.
- Proposal to the Board of Directors regarding the approval of the Report for the First Half of 2017.
- Study and proposal of related party transactions.
- Review, amendment and implementation of improvements to the Crime Prevention Model and the internal implementing rules and regulations.

Explanatory note 5

Section C.2.1. Audit Committee. Identify the member of the Audit Committee who was appointed based on his/her knowledge and experience in accounting, auditing or both, and state the number of years that the Chairman of this committee has held this position.

Until 14 April 2017: Francisco Javier Valero Artola
No. of years as Chairman: 3

From 26 April to 22 June 2017: Acacio Faustino Rodríguez García
No. of years as Chairman: 2 months

From 22 June to 29 December 2017: Francisco Javier González Canga
No. of years as Chairman: 6 months

Explanatory note 6

Section C.2.1. Nomination and Remuneration Committee

NOMINATION AND REMUNERATION COMMITTEE

Changes in the composition of the Nomination and Remuneration Committee in 2017:

Until the General Meeting held on 22 June 2017, the Committee's composition was as follows:

DIRECTOR	POSITION	CATEGORY
Carlos Solchaga Catalán	Chairman	Independent
Acacio Faustino Rodríguez García	Member	Independent
Inversiones El Piles, S.L.	Member	Independent

% of proprietary directors 33.33%
% of independent directors: 66.66%
% of other external directors: 0.00%

From the General Meeting held on 22 June 2017 until 17 October 2017, the Committee's composition was as follows:

DIRECTOR	POSITION	CATEGORY
Ricardo Córdoba	Chairman	Independent
Francisco Javier González Canga	Member	Independent
Inversiones Somió, S.L.	Member	Proprietary

% of proprietary directors 33.33%
% of independent directors: 66.66%
% of other external directors: 0.00%

Explanatory note 7

Section C.2.1. Nomination and Remuneration Committee. Explain the committee's duties, describe the procedures and organisational and operational rules and summarise the main actions taken during the year.
(Cont.)

Functions:

1. The Nomination and Remuneration Committee should have the following functions over and above those attributed to by law, the Bylaws or these Regulations, or those assigned by the Board of Directors:

   a) Evaluate the competencies, knowledge and experience necessary for the Board of Directors. To this end, the Committee shall define the duties and capabilities necessary in candidates who shall fulfill each vacancy and evaluate the time and dedication necessary in order to efficiently fulfill their commitment, and run an annual check on compliance with the director selection policy.

   b) Establish an objective regarding the representation of the least represented gender in the Board of Directors, and develop guidelines as to how to reach said objective.

   c) Submit to the Board of Directors proposals for the appointment of independent directors for their nomination by co-option or for their submission to the General Meeting of Shareholders' decision, in addition to proposals for the re-election or dismissal of said directors by the General Meeting of Shareholders.

   d) Inform of any proposals for appointment of all other directors for their nomination by co-option or for their submission to decision by the General Meeting of Shareholders, in addition to proposals for their re-election or dismissal by the General Meeting of Shareholders.

   e) Inform of any proposals to the Board of Directors for appointment or dismissal of senior management and the basic conditions of their contracts.

   f) Research and organise the succession of the Chairman of the Board of Directors and, as appropriate, the Chief Executive of the Company, formulating proposals to the Board of Directors so that said succession can be processed in an ordered and well-executed manner.

   g) Propose to the Board of Directors, the Directors' and managing directors' remuneration policy and of whoever else performs senior management duties under the direct supervision of the Board of Directors, the Executive Committee or the Chief Executive Officers, in addition to the individual remuneration and other contractual conditions of executive directors, ensuring compliance with the same.

   h) Periodically review the remuneration policy for Directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other Directors and senior officers in the company.

i) Verify the information on Director and senior officers' pay contained in corporate documents, including the Annual Directors' Remuneration Statement.

j) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

k) Ensure compliance with the Company's corporate governance rules. In this respect, the Nomination and Remuneration Committee shall be responsible for:

   i. Supervision of transparency in corporate actions.

   ii. The periodic evaluation of the effectiveness of the Company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

   iii. Reporting and, if appropriate, raising proposals to the Board of Directors regarding the development of the corporate governance rules for the Company and its Group based on the provisions of the Bylaws and in accordance with the applicable legislation at all times.

l) Monitor compliance with the Company's corporate social responsibility policy. In this respect, it shall:

   i. Review the Company's corporate social responsibility policy, ensuring that it is geared to value creation.

   Specifically, the Committee shall ensure that the corporate social responsibility policy specifies at least:

   - The goals of its corporate social responsibility policy and the support instruments to be deployed.
   - The corporate strategy with regard to sustainability, the environment and social issues.
   - Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
   - The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

- The mechanisms for supervising non-financial risk, ethics and business conduct.

- Channels for stakeholder communication, participation and dialogue.

- Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Any report issued by the Nomination and Remuneration Committee on the Company's corporate social responsibility policy shall be prepared using an internationally accepted methodology, and published on the Company's website sufficiently in advance of the Ordinary General Meeting.

ii. The Nomination and Remuneration Committee shall also be responsible for overseeing the communication and relations strategy with shareholders, including small and medium-sized shareholders; monitoring corporate social responsibility strategy and practices, and assessing compliance in this respect; monitoring and evaluating the Company's interactions with its stakeholder groups; coordinating non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

m) Within the scope of its duties, raise to the Board any proposals deemed advisable for its eventual analysis and approval.

n) Perform any other duties entrusted to it by the Board of Directors.

Main actions in the year:

Proposal for the determination of director's variable remuneration in accordance with the results obtained in 2016.

Examination and proposal, if appropriate, on the distribution of the fixed remuneration of Directors in the current year, in accordance with the Director Remuneration Policy approved at the General Meeting of Shareholders for 2015, 2016 and 2017.

Proposal for the variable remuneration of the Chairman of the Board for the performance of his executive duties in 2016 and the establishment of the 2017 targets, as provided for in his contract.

Examination and proposal for the hiring of a person with a senior management contract.

Application of the 2016 director policy and 2016 remuneration report.

Approval of the Corporate Social Responsibility report.

Resignation and appointment of one member of senior management

Appointment of the Lead Director.

Report and proposal to the General Meeting on the ratification, re-election and appointment of directors

Proposal of modification to the director remuneration policy approved for 2015, 2016 and 2017, in respect of executive directors.

Proposal for appointment of an Independent Director.

DURO FELGUERA, S.A.

APPROVAL OF THE BOARD OF DIRECTORS

Chairman	Acacio Faustino Rodríguez García
Deputy Chairman	Inversiones Río Magdalena, S.L.
Director	Inversiones Somió, S.L.
Director	Inversiones El Piles, S.L.
Director	Ángel Antonio del Valle Suárez
Director	Elena Cabal Noriega
Director	Francisco Javier González Canga
Director	Jose Manuel García Hermoso
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 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 Directors' Report for the year ended 31 December 2017 by all of the members of the Board of Directors, have signed this document approved by the Chairman, which includes this page in the Spanish language version signed by each of the Board Members, whose full names and position are indicated after each signature, which I validate and certify. In the event of discrepancy, the Spanish language version prevails.

Madrid, 13 March 2018

Acacio Faustino Rodríguez García
Chairman

Secundino Felgueroso Fuentes
Non-voting Secretary