

Duro Felguera, S.A.

Report on Limited Review

Interim Condensed Consolidated
Financial Statements
for the six-month period
ended 30 June 2020

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

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REPORT ON LIMITED REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Duro Felguera, S.A. at the request of the Board of Directors,

Report on the interim condensed consolidated financial statements

Introduction

We have performed a limited review of the accompanying interim condensed consolidated financial statements ("the interim financial statements") of Duro Felguera, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the condensed consolidated statement of financial position as at 30 June 2020, and the condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and explanatory notes thereto for the six-month period then ended. The Parent's directors are responsible for preparing these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim condensed financial information, in conformity with Article 12 of Spanish Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2400. A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with the audit regulations in force in Spain and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

Based on our limited review, which under no circumstances may be considered to be an audit of financial statements, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2020 are not prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim condensed financial statements, pursuant to Article 12 of Spanish Royal Decree 1362/2007.

Emphasis of Matters

We draw attention to explanatory Notes 2.11 and 3 to the accompanying interim condensed consolidated financial statements, which indicate the issues relating to the Group's liquidity situation and the negative impact the COVID-19 crisis has had on its activity in the first few months of 2020, which have resulted in a variance in the fulfilment of the treasury plan envisaged and in the Group's profit or loss for the first half of 2020, as a result of which the Group had an equity deficit at 30 June 2020. However, at that date the Parent was not in a situation of mandatory dissolution pursuant to Article 18.1 of Spanish Royal Decree-Law 16/2010, of 28 April, on procedural and organisational

measures to combat COVID-19 in the administration of justice in Spain. The Parent's directors have proposed a series of measures to try to achieve the equity and financial equilibrium that will facilitate the Group's viability, which are explained in the aforementioned explanatory Note 2.11. The aforementioned equity position and the liquidity problems referred to in the aforementioned Note indicate that a material uncertainty exists which may cast significant doubt on the Group's ability to continue as a going concern and on the amounts for which, and time periods in which, the assets will ultimately be recovered and the liabilities will ultimately be settled. Our conclusion is not modified in respect of this matter.

Also, we draw attention to the significant estimates made at the end of the six-month period in relation, *inter alia*, to outcome of the projects in progress, the valuation of property assets and the estimation of impairment losses on certain accounts receivable, in view of the uncertain nature of any information based on expectations, especially in the public health crisis, as described in explanatory Notes 3, 7, 8, 11, 16 and 17, which could give rise to differences between actual and projected results. Our conclusion is not modified in respect of this matter.

Lastly, we draw attention to explanatory Note 2.1 to the accompanying interim financial statements, which indicates that the aforementioned accompanying interim financial statements do not include all the information that would be required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and, therefore, the accompanying interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2019. Our conclusion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

The accompanying interim consolidated directors' report for the six-month period ended 30 June 2020 contains the explanations which the Parent's directors consider appropriate about the significant events that took place in this period and their effect on the interim financial statements presented, of which it does not form part, and about the information required pursuant to Article 15 of Spanish Royal Decree 1362/2007. We have checked that the accounting information in the interim consolidated directors' report is consistent with that contained in the interim financial statements for the six-month period ended 30 June 2020. Our work was confined to checking the interim consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Duro Felguera, S.A. and Subsidiaries.

Other Matter

This report was prepared at the request of the Board of Directors of Duro Felguera, S.A. in relation to the publication of the half-yearly financial report required by Article 119 of the Consolidated Spanish Securities Market Law, approved by Legislative Royal Decree 4/2015, of 23 October, and implemented by Royal Decree 1362/2007, of 19 October.

DELOITTE, S.L.

Alicia Izaga

27 October 2020

**DURO FELGUERA, S.A.
AND SUBSIDIARIES**

Interim Condensed Consolidated
Financial Statements and Management Report
for the six months ended 30 June 2020



DURO FELGUERA, S.A. AND SUBSIDIARIES

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020(€ thousand)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

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Interim consolidated management report

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020 (€ thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At 30 June 2020 (Unaudited)		At 31 December 2019 (Audited)		Note	At 30 June 2020 (Unaudited)		At 31 December 2019 (Audited)	
		ASSETS	EQUITY AND LIABILITIES	At 30 June 2020 (Unaudited)	At 31 December 2019 (Audited)		At 30 June 2020 (Unaudited)	At 31 December 2019 (Audited)	At 30 June 2020 (Unaudited)	At 31 December 2019 (Audited)
Property, plant and equipment	7	32,666	Share capital	37,131	9	4,800	4,800	4,800	4,800	4,800
Investment properties	7	22,392	Share premium and reserves	27,327		71,435	67,541			
Intangible assets	7	13,266	Profit or loss for the period attributable to equity holders of the parent	14,469		(113,887)	1,388			
Right-of-use assets		390	Other equity instruments	56		8,093	8,093			
Investments in associates		20	Valuation adjustments	20		(59,171)	(49,786)			
Equity instruments	5-8	5,476	EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	5,477		(88,730)	32,036			
Loans and other receivables		351	Non-controlling interests	262		(8,089)	(16,451)			
Deferred tax assets		26,422	EQUITY	30,306		(96,819)	15,585			
NON-CURRENT ASSETS		100,983	DEFERRED INCOME	115,048		3,720	3,846			
Inventories		10,194	Borrowings	9,933	8-10	5,012	89,907			
Trade and other receivables		171,959	Deferred tax liabilities	233,370		26,422	30,184			
Financial receivables		492	Employee benefits	492	11	1,261	1,328			
Current tax assets		14	Provisions for other liabilities and charges	11		11	12			
Cash and cash equivalents		69,520	NON-CURRENT LIABILITIES	122,908		32,706	121,431			
CURRENT ASSETS		252,179	Borrowings	8-10		87,554	10,020			
TOTAL ASSETS		353,162	Trade and other payables			221,834	260,408			
			Current tax liabilities				2,591	2,452		
			Employee benefits				5,139	4,669		
			Provisions for other liabilities and charges		11		96,437	63,347		
			CURRENT LIABILITIES				413,555	340,896		
			TOTAL EQUITY AND LIABILITIES				353,162	481,758		

The accompanying notes 1 to 18 are an integral part of the interim condensed consolidated financial statements.

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020(€ thousand)

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2020 (Unaudited)	2019 (Audited)
	Note		
Revenue	4	71,702	178,418
Changes in inventories of finished goods and work in progress		619	729
Cost of sales		(54,056)	(97,411)
Gross profit		18,265	81,736
Employee benefits expense		(33,716)	(47,878)
Amortisation and depreciation	7	(2,997)	(3,490)
Operating expenses		(15,098)	(41,363)
Losses, impairment and changes in trade provisions		(77,814)	(10,510)
Impairment and gains/(losses) on disposal of fixed assets		(7,010)	1,362
Gain/(loss) on loss of control of subsidiaries		9,142	-
Other gains/(losses) net		(2,409)	28,469
Operating profit/(loss)		(111,637)	8,326
Net finance income/(cost)		(1,836)	4,428
Gains/(losses) on disposal of financial instruments		(1)	-
Share of loss/(profit) of associates		(147)	(1,075)
Profit/(loss) before tax		(113,621)	11,679
Income tax expense	12	(427)	(6,727)
Profit/(loss) for the period from continuing operations		(114,048)	4,952
a) Profit or loss for the period attributable to equity holders of the parent		(113,887)	820
b) Profit or loss attributable to non-controlling interests		(161)	4,132
Earnings/(loss) per share (€ per share)			
- Basic		(1.19)	0.0002
- Diluted		(1.12)	0.0002

The accompanying notes 1 to 18 are an integral part of the interim condensed consolidated financial statements.

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020(€ thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Audited)
Profit/(loss) for the period	(114,048)	4,952
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss</i>		
Net gain/(loss) on equity instruments at fair value through other comprehensive income	-	1,026
Currency translation differences	(1,345)	607
Income tax relating to items that will not be reclassified	-	(409)
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value available-for-sale financial assets	-	-
Currency translation differences:		
a) Valuation gains/(losses)	9,401	5,393
b) Amounts transferred to the income statement	(5,546)	-
Other income and expenses that may be reclassified to profit or loss:		
a) Valuation gains/(losses)	(6,987)	(1,709)
b) Amounts transferred to the income statement	6,103	-
Income tax relating to items that may be reclassified to profit or loss	-	-
Other comprehensive income for the period, net of tax	1,626	4,908
Total comprehensive income for the period	(112,422)	9,860
 a) Attributable to equity holders of the parent	(112,265)	5,571
b) Attributable to non-controlling interests	(157)	4,289
 (112,422)	9,860	

The accompanying notes 1 to 18 are an integral part of the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity holders of the parent						
	Capital	Share premium and reserves ⁽¹⁾	Profit or loss for the period attributable to equity holders of the parent	Other equity instruments	Valuation adjustments	Non-controlling interests	Total equity
Balance at 1 January 2019	48,000	(58,564)	99,430	8,093	(51,952)	(36,489)	8,518
Profit/(loss) for the period	-	-	820	-	-	4,132	4,952
Other comprehensive income	-	-	-	-	4,751	157	4,908
Total comprehensive income	-	-	820	-	4,751	4,289	9,860
Capital increases/(reductions)	(43,200)	43,200	-	-	-	-	-
Distribution of dividends	-	-	-	-	-	(15)	(15)
Transfers between equity items	-	99,430	(99,430)	-	-	-	-
Other changes	-	(3,632)	-	-	-	(378)	(4,010)
Balance at 30 June 2019 (audited)	4,800	80,434	820	8,093	(47,201)	(32,593)	14,353
Balance at 1 January 2020	4,800	67,541	1,388	8,093	(49,786)	(16,451)	15,585
Profit/(loss) for the period	-	-	(113,887)	-	557	(161)	(113,491)
Other comprehensive income	-	-	-	-	1,065	4	1,069
Total comprehensive income	-	-	(113,887)	-	1,622	(157)	(112,422)
Transfers between equity items	-	1,388	(1,388)	-	-	-	-
Other changes	-	2,506	-	-	(11,007)	8,519	18
Balance at 30 June 2020 (unaudited)	4,800	71,435	(113,887)	8,093	(59,171)	(8,089)	(96,819)

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

The accompanying notes 1 to 18 are an integral part of the interim condensed consolidated financial statements.



DURO FELGUERA, S.A. AND SUBSIDIARIES

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020(€ thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2020 (Unaudited)	2019 Audited
Cash flows from operating activities		
Profit/(loss) before tax	(113,621)	11,679
Adjustments for depreciation and amortisation	2,997	3,490
Other adjustments to profit/(loss):	77,297	(875)
Changes in operating assets and liabilities	(18,271)	(39,668)
Interest paid	(1,209)	(2,041)
Income tax received/(paid)	(472)	-
Net cash flows used in operating activities	(53,279)	(27,415)
Cash flows from investing activities		
Payments for investments		
Property, plant and equipment, intangible assets and investment properties	-	(221)
Proceeds from sale of investments		
Property, plant and equipment, intangible assets and investment properties	551	6,298
Cash flows from investing activities		
Interest and dividends received	281	3,840
Net cash flows from investing activities	832	9,917
Cash flows from financing activities		
Proceeds from and payments for equity instruments:		
Other movements	-	-
Proceeds from and payments for financial liability instruments		
Issue	-	-
Redemption and repayment	(33)	(1,882)
Dividends and interest on other financial instruments paid		
-	-	-
Other cash flows from financing activities		
Other proceeds from/(payments for) financing activities	6	-
Net cash flows from/(used in) in financing activities	(27)	(1,882)
Net foreign exchange difference	(1,556)	351
Impact of Argentina's consideration as a hyperinflation economy. Loss of purchasing power.	642	1,613
Net increase/(decrease) in cash and cash equivalents	(53,388)	(17,416)
Cash and cash equivalents at beginning of period	122,908	103,097
Cash and cash equivalents at end of period	69,520	85,681
Components of cash and cash equivalents at end of period		
Cash and banks	31,731	47,601
Other financial assets	37,789	38,080
Total cash and cash equivalents at end of period	69,520	85,681

The accompanying notes 1 to 18 are an integral part of the interim condensed consolidated financial statements.

**Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020(€ thousand)****EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. Nature and activities of the parent company**

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

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

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

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

The financial years of all Duro Felguera Group companies end on 31 December, except for subsidiary Felguera Grúas India Private Limited, whose financial year ends on 31 March.

Duro Felguera, S.A.'s separate and consolidated annual financial statements for 2019 were authorised for issued by the Board of Directors on 22 May 2020 and are expected to be approved at the Annual General Meeting to be held on 29 October 2020.

The accompanying interim condensed consolidated financial statements of the Duro Felguera Group for the six months ended 30 June 2020 were prepared in accordance with IAS 34 *Interim Financial Reporting* and authorised for issue by the Board of Directors on 27 October 2020.

2. Basis of preparation and other information**2.1. Basis of preparation**

In accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the laws of a member state of the European Union and whose securities are traded on a regulated market in any European Union country must file consolidated financial statements for periods beginning on or after 1 January 2005 in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Group's 2019 consolidated financial statements were authorised for issue on 22 May 2020 by the parent company's directors in accordance with the International Financial Reporting Standards as adopted by the European Union, applying the consolidation principles, accounting policies and measurement criteria described in Note 2 to those consolidated financial statements, to give a true and fair view of the Group's consolidated equity and financial position at 31 December 2019, and of its consolidated financial performance and the changes in its consolidated equity and consolidated cash flows for the year then ended.

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020(€ thousand)

The accompanying interim condensed consolidated financial statements are presented in accordance with IAS 34 *Interim Financial Reporting* and were authorised for issue by the Group's directors on 27 October 2020 in accordance with article 12 of Royal Decree 1362/2007.

In accordance with IAS 34, the interim financial report is intended to provide an update on the Group's latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances occurring in the first half of the year, and does not duplicate information previously reported in the annual consolidated financial statements for 2019. For an appropriate understanding of the information included in these interim condensed consolidated financial statements, they should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019.

The accounting policies and principles adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the 2019 annual consolidated financial statements.

2.2. Adoption of international financial reporting standards

In 2020, the following mandatory standards and interpretations, already endorsed by the European Union, became effective and, where applicable, were used by the Group in the preparation of the interim condensed consolidated financial statements, but did not have a significant impact:

New mandatory standards, amendments and interpretations in the period

Approved for use in the European Union	Mandatory for annual reporting periods beginning on or after:	
Amendments to IAS 1 and IAS 8 <i>Definition of Material</i>	Amendments to IAS 1 and IAS 8 to align the definition contained in the conceptual framework	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 – <i>Interest Rate Benchmark Reform</i>	Amendments to IFRS 9, IAS 39 and IFRS 7 related to the ongoing interest rate benchmark reform.	1 January 2020
Amendments to IFRS 3 <i>Business Combinations</i>	Clarification of the definition of a business	1 January 2020

At the date of authorisation for issue of these consolidated financial statements, the following standards and interpretations had been published by the IASB but were not yet effective, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union, are discussed below:

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020(€ thousand)

New mandatory standards, amendments and interpretations applicable for annual periods after the calendar year beginning 1 January 2020

Approved for use in the European Union	Mandatory for annual reporting periods beginning on or after:
Amendment to IFRS 16 <i>Leases - Rent Concessions</i>	Amendments to facilitate lessee accounting of COVID-19-related rent concessions 1 June 2020
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - <i>Interest Rate Benchmark Reform Phase 2</i>	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 related to the ongoing interest rate benchmark 1 January 2021
Amendment to IAS 1 <i>Classification of Liabilities as Current or Non-current</i>	Clarifies requirements regarding the classification of liabilities as current or non-current 1 January 2023
IFRS 17 <i>Insurance Contracts</i> (issued in May 2017)	Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. It will supersede IFRS 4 1 January 2023

For standards that become effective from 2021 and onwards, the Group has performed a preliminary assessment of the potential impacts of their future application once they become effective. As at the reporting date, it considers that the impacts of application of these standards will not be significant.

2.3. Estimates

Consolidated profit or loss and the calculation of consolidated equity are sensitive to the accounting principles and policies, measurement bases and the estimates used by the parent company's directors in the preparation of the interim condensed consolidated financial statements. The main accounting principles and policies and measurement bases are described in Note 2 to the 2019 annual consolidated financial statements.

In the interim condensed consolidated financial statements, estimates were made by the directors and senior management of the parent company and consolidated companies to measure certain of the assets, liabilities, revenue, expenses and obligations recognised herein. These estimates, based on the best information available, relate mainly to:

1. Impairment losses on certain intangible assets, property, plant and equipment, investment properties and financial assets (Notes 7 and 8).
2. The useful life of intangible assets and property, plant, and equipment (Note 7).
3. The fair values of certain financial instruments (Note 5.2).
4. The calculation of provisions (Note 11).
5. The calculation of the stage of completion for revenue recognition based on estimated costs of the related projects and their modifications.

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020(€ thousand)

6. The assessment of the probability of having future taxable profits for the recovery of deferred tax assets (Note 12) and the recoverability of income taxes from non-residents levied in other countries.
7. The measurement of long-term employee benefit obligations (Note 11).

The parent company's directors consider that there are significant contingent assets and liabilities for the Group as at 30 June 2020, as disclosed in note 16. Note 36 to the Group's consolidated financial statements for the year ended 31 December 2019 provides information on guarantee commitments to third parties and contingent liabilities at that date. Significant changes therein occurred in the first six months of 2020.

Although these estimates were made on the basis of the best information available at the reporting date regarding the facts analysed, future events could make it necessary to revise these estimates (upwards or downwards). Any changes in accounting estimates would be applied prospectively in accordance with IAS 8, with the effects of the change in accounting estimates recognised in the consolidated income statement of the periods affected. In the six months ended 30 June 2020, there were significant changes in the estimates made at the end of 2019, mainly due to the explanations provided in section 2.11 below.

2.4. Basis of consolidation

The principles, criteria and methods of consolidation used in the preparation of the accompanying interim condensed consolidated financial statements are consistent with those used in the Group's 2019 financial statements, except for the method used for consolidating Dunor Energía, S.A.P.I. de C.V., which was accounted for using the equity method. Comparative data for the preceding period were not restated as the effect was immaterial.

The first half of 2020 featured the following exclusions from the scope of consolidation:

	Disposals
GROUP	Duro Felguera Australia Pty Limited
UTEs	UTE Andasol III

As explained in the events after the reporting period in the 2019 consolidated financial statements, on 28 February 2020 Duro Felguera Australia Pty Limited was appointed insolvency administrator in the event of the company's insolvency. This resulted in the departure of this company from the Group's control and consolidated financial statements, giving rise to income of €9.1 million in the consolidated income statement for the first half of the year, which includes the cumulative gains and losses remeasured at 31 December 2019 in "Other valuation adjustments" recycled to profit or loss.

Moreover, as disclosed in Note 18, in relation to the insolvency proceedings of the Australian company, the Board of Directors of Duro Felguera, S.A., in accordance with the certification issued by the Duro Felguera Australia Pty Limited receivers dated 6 October 2020, received the unanimous approval from the creditors present of a Deed of Company Arrangement ("DOCA"), under Australian legislation. This removes any uncertainty regarding the possible reimbursements of amounts against the parent company disclosed in the 2019 consolidated financial statements and will not have any additional economic impact than mentioned previously.



Additional changes in the Group's consolidation scope in the first half of 2019 were as follows:

GROUP	Disposals
	DF Ingeniería Técnica de Proyectos y Sistemas, S.A. Duro Felguera Industrial Projects Consulting Co, Ltd Tanques de Cartagena, S.A.

2.5. Comparative information

For comparative purposes, the interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six months ended 30 June 2020 contain information for the six months ended 30 June 2019. The interim condensed consolidated statement of financial position as at 30 June 2019 contains information as at 31 December 2019, both of which have been audited without any qualification by EY.

2.6. Seasonality of Group operations

Given the activities carried out by Group companies, their transactions are not considered to be particularly cyclical or seasonal. Consequently, the accompanying explanatory notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 do not include specific disclosures.

2.7. Materiality

In determining the disclosures of the various items of the financial statements and other matters, the Group, in accordance with IAS 34, assessed materiality in relation to the interim condensed consolidated financial statements.

2.8. Corrections of accounting errors

In the preparation of the interim condensed consolidated financial statements for the six months ended 30 June 2020, no errors were uncovered requiring the restatement of the amounts included in the 2019 consolidated financial statements.

2.9. Condensed consolidated statement of cash flows

The following terms, with the meanings specified, are used in the condensed consolidated statement of cash flows, which was prepared using the indirect method:

1. Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly-liquid investments that are subject to an insignificant risk of changes in value.
2. Operating activities: the principal revenue-producing activities of the companies comprising from the consolidated Group and other activities that are not investing or financing activities.
3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents, provided that they have a direct impact on cash flows.
4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Company that are not operating activities, provided that they have a direct impact on cash flows.

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020(€ thousand)

2.10. Events after the reporting period

As at the date of approval of the accompanying interim financial statements, no additional event occurred that was not included therein (Note 18).

2.11. Going concern principle

At 30 June 2020, the parent company had negative equity of €110,474 thousand. The Group had negative equity of €96,819 thousand after the losses recorded in the first half of 2020. In addition, the Group had negative working capital of €161,376 thousand at 30 June 2020. Nevertheless, the Group is not currently in a circumstance of dissolution according to Royal Decree Law 16/2020, of 28 April, on procedural and organisational measures to deal with COVID-19 in the scope of the Administration of Justice, article 18.1 of which states: *"For the sole purpose of determining causes for dissolution provided for in article 363.1 e) of the consolidated text of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital), approved by Royal Legislative Decree 1/2010, of 2 July, losses of the current financial year 2020 shall not be taken into consideration. If the result for the 2021 financial year shows losses that reduce the net assets to less than half the share capital, the directors must hold a meeting or any shareholder may request a meeting within two months of the end of the financial year in accordance with article 365 of the aforementioned law, in order to proceed with the dissolution of the company, unless the capital is increased or reduced to a sufficient extent".*

Note 2.1 to the 2019 consolidated financial statements details the assumptions used by the Group to execute the 2019-2023 strategic plan and the estimates for executing the 15-month cash plan, which already contained significant updates to the assumptions outlined in the strategic plan.

This cash plan already factored in partly the impacts of COVID-19, such as a reduction in order intake, delays in the sale of real estate assets, delays in the restart of projects and delays in the repatriation of funds. Estimates to deliver the plan included, among others, raising proceeds of between €10 million and €15 million from the sale of non-strategic assets, obtaining waivers from creditor banks in relation to repayments of the loan described in Note 22 to the 2019 consolidated financial statements, which is subject to an acceleration event, new guarantees or equivalent instruments for projects in the backlog and new contract origination, and meeting the assumptions considered by the parent company's directors in relation to projects in progress and those subject to dispute.

These assumptions, already amid the health crisis, have been undermined over time by the adverse effects caused by the global pandemic (Note 3).

Further actions taken by the Group to carry out the cash plan, such as negotiating to resolve the refinancing agreement with creditor banks, efforts to arrange bilateral guarantee facilities and similar items, and negotiations with customers and suppliers to shore up the Group's cash position and equity, have slowed down, hindering the achievement of the plan objectives.

Beyond these circumstances, the crisis caused by COVID-19 had a major impact on the Group's earnings in the first half of the year (Note 3), prompting the Group to undertake the following actions to secure liquidity and keep the business operating:

- Update of the strategic plan
- Renegotiation with banks to raise liquidity and obtain guarantees
- Search for industrial partners
- Optimisation of cash

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However, given the pandemic's impact on Duro Felguera and its effect on deviations relative to the 2020 budget, these measures alone are not enough to ensure Duro Felguera's viability.

Therefore, in accordance with eligibility requirements, on 28 August 2020, Duro Felguera applied for €100 million of temporary public support from the Strategic Business Solvency Support Fund (*Fondo de Apoyo a la Solvencia de Empresas Estratégicas*) through the following instruments, in accordance with the fund's application rules:

- €70 million participating loan
- €30 million capital increase to be subscribed by SEPI

The temporary public assistance is part of the Group's overall financial restructuring process, which also includes refinancing of the outstanding syndicated debt, granting of a new ICO-backed liquidity facility, and a revolving guarantee facility covered by CESCE, all of which are currently under negotiation with the bank syndicate.

Unless it receives this temporary public support, the Group could find its extremely difficult to continue operating. Nevertheless, it is taking all the necessary measures and actions to comply with the milestones described previously. Therefore, the directors have prepared the interim condensed consolidated financial statements on a going concern basis, considering the favourable outlook for these processes.

3. Impact of COVID-19 on the company's business

The current situation caused by the COVID-19 coronavirus outbreak, which prompted the World Health Organization to declare a pandemic as a result of the health crisis caused by the virus, is having an unprecedented impact on economic and financial markets.

Because of COVID-19, Duro Felguera Group has taken action to overcome the crisis, adapting to the new normal and planning for its future. Indeed, the Group is taking steps to secure liquidity and the continuity of its business, to boost profitability and to optimise earnings, having drawn up a new strategy. The recovery begun in 2019 enabled the Group to become profit-making again after sustaining operating losses in 2017 and 2018. However, it has been impacted heavily by the crisis situation caused by the pandemic. While the Group has made every effort from the outset, heeding the preventive measures issued by the World Health Organisation and other authorities and prioritising worker health and safety, the scale of COVID-19's impact on the economy has made it impossible to extend the recovery seen in the 2019 financial statements.

The total impact of COVID on the Group is estimated at around €100 million, as follows:

Impact on operations:

The Group recently revised the 2020-2025 strategic plan to focus on strengthening its traditional businesses and grow in renewable energy and smart systems. The aim is to absorb the impact on the Group's accounts of the drop in new contracts and periods of lower activity brought on by the uncertainty caused by the health emergency.

For instance, tendering in the Group's various footprint geographies has slacked off owing to the impact on investment decisions of potential customers. This has led to a drop in the number of contracts expected in 2020 alone of €234 million compared to the budget drawn up by the Group at end-January 2020, pushing back order intake targets by 30 months and reducing the forecast margin for 2020 by €12.5 million as a result of this lower contracting.

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Meanwhile, the health emergency and lockdown slowed projects in progress and in some cases resulted in temporary shutdowns of production. This was due among other reasons to temporary breaks in the supply chain and the implementation of measures issued by the health authorities, which led to changes in how projects are executed and organised. As a result, the pandemic had serious implications for certain projects under way in several geographical areas.

Shutting operations in countries to varying degrees and at different times had an estimated direct impact through additional COVID-19-related costs for certain projects in progress, requiring the Group to recognise provisions amounting to approximately €81 million. Highlights include:

Jebel Ali

The United Arab Emirates began restricting entry by staff into the country on 17 March 2020. From then, several equipment suppliers began notifying DF regarding the impact of COVID-19 on them and their operating performance.

The various measures taken by the UAE government also had a direct impact on projects carried out by DF by restricting movement of on-site personnel and the availability of materials to continue executing the civil engineering works under way. Stricter security measures were placed on transportation and labour camps and on access controls to the customer's facilities.

On 22 April 2020, DF requested a suspension of work at the site to prevent further risk to the health and safety of workers in the wake of the pandemic after uncovering positive cases of coronavirus, but it did not receive any response from the customer.

There was a total of 24 positive coronavirus cases between DF staff and subcontractors, and work on the site was halted.

After suspending work on the site because of the COVID-19 outbreak, DEWA sent Duro Felguera a notice of default on 9 May 2020, which led to the enforcement of the €47.8 million of advance payment and performance bonds. As a result, the funds held by DF in Dubai Islamic Bank were appropriated and its accounts were blocked, leading to a reduction of cash of approximately €8 million since there were no counter-guarantees from local banks to call in the remaining amount.

On 24 June 2020, DEWA notified termination of the contract to DF with effect from 1 July 2020. This implied a substantial change in the negotiation process and the spirit of conciliation and search for solutions pursued with the customer until then. Termination of the contract gave rise to a new scenario in relations since DF had previously filed claims with the customer pending arbitration. This highlights the need to reassess the project in a scenario that includes the contract termination and is especially complicated and tense with the counterparty, prompting the Group to consider a further €35 million of project losses.

Bellara

In January 2020, an agreement reached to start the project back up with a higher contract price and longer execution period, and resume the extension works. However, in March 2020, the project was suspended once again without effectively triggering the preliminary agreement as it was due to force majeure caused by COVID-19.



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Now, six months since the project was halted, Algeria's borders are still closed, so when the project can resume remains to be seen. Until they reopen, it cannot start again. The current situation is giving rise to certain additional costs; e.g. maintenance of local infrastructure to preserve and monitor the work carried out and the equipment stored there; warehouse costs for materials and equipment pending dispatch to the site; and costs for impairment on equipment already supplied and installed on site.

The pandemic also interrupted negotiations with the customer.

Because of the uncertainty brought on by the pandemic, the company has reassessed the project's budget, estimating a negative impact of €4 million on the project outcome.

Arcelor Project

This project entails an agreement entered into with Küttner HuDe GmbH (Hude) for the coke oven project for ArcelorMittal España S.A. in Asturias. Due to the health crisis caused by COVID-19, Hude informed the Group on 22 March 2020 that the end customer (ArcelorMittal) had halted all the work it had been performing in Europe and, accordingly, the work on the project for its plant in Asturias. With the work stopped, Hude suspended payment of the work carried out by the Group, giving rise to a receivable of €2.6 million for past-due invoices and €0.5 million of retentions recoverable.

ArcelorMittal resumed the work, but Hude did not resume its services. Therefore, the Group was forced to terminate the contract with Hude. Given the uncertainty surrounding collection of the outstanding debt because of the complex legal relationship under which it is governed, the Group recognised an impairment loss on the receivable.

Djelfa

On 17 March 2020, the Algerian government closed the country's borders, cancelled all flights from Europe and closed its ports.

On 22 March 2020, the customer reported that staff not on site at that time no longer had access. This halted assembly work in progress, although Duro Felguera kept its staff on site and continued providing essential activities of equipment and material maintenance, surveillance and supervision of civil engineering by the customer.

In letters dated 18 March 2020, 26 March 2020 and 8 April 2020, Duro Felguera asked the customer to temporarily suspend the parties' contractual obligations as set out in the contract. The request was predicated on the serious impact of the COVID-19-related measures taken on the project. The customer rejected the request despite the evidence.

Algeria's overall economy has also been negatively affected not only by the shutdown of general economic activity, but also the fall in global demand and prices in the oil and gas markets. This directly impacts the customer since it is a public company that obtains revenue from energy and gas sales.

On 30 March 2020, the customer sent a notice of default, in which it completely ignored the restrictions imposed by the pandemic in general and the restrictive measures imposed by the Algerian government in particular, urging Duro Felguera to resume its work.

In light of this customer's behaviour, Duro Felguera had no choice but to formally notify SPE that there was a dispute and to invoke arbitration under the contract. This notification was sent on 4 May 2020.



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On 3 June 2020, a letter was received from the customer threatening to enforce the guarantees on 30 June 2020 if Duro Felguera failed to accept the deadlines for commissioning certain elements of the plant without any "non-contractual terms and conditions"; i.e. waiving its claims, and immediately resume work, regardless of the situation of force majeure caused by the COVID-19 pandemic.

On 8 June 2020, Duro Felguera sought an injunction against enforcement of the bank guarantees.

On 19 June 2020, Oviedo Court of First Instance No 11 granted the request for precautionary measures.

On July 8, 2020, Duro Felguera filed a request for arbitration before the Algerian Chamber of Commerce and Industry, which was identified in the contract for resolving disputes between the parties.

Because of this situation, the Group reassessed the project budget. It considered that suspension of the contract because of COVID-19 would result in a delay of 18-24 months and estimated cost overruns due to overheads, financial costs, costs of extending equipment guarantees, reviewing, inspecting and replacing damaged equipment, storage costs and arbitration costs. Moreover, since the situation caused by the pandemic led to greater uncertainty in communications with the customer and commencement of an arbitration process, which is still in the very early stages, Duro Felguera decided not to consider any additional amount claimed from the customer for the extra costs incurred as a higher sales price.

All this resulted in a loss of €36 million for the company in the first half of 2020.

Iernut

On 10 July 2020 the Mures Chamber of Commerce (Romania) formally issued a certificate recognising that the COVID-19 pandemic had affected the project for three months.

As a result, the project budget was reassessed, with the company recognising costs related to the three-month period and costs of providing insurance and guarantees for the equipment. It quantified the COVID-19-related impact at €3 million.

Impact on the valuation of assets:

The slowdown in the Spanish real estate market caused by the pandemic also impacted the Group considerably. This effect is even more marked in the office market. Demand for office property has fallen due to the economic crisis, the shuttering of some businesses and the introduction of teleworking. As a result, the Group has been forced to delay sales of non-strategic real estate assets planned for 2020 and re-measure the assets at current market prices. This led to recognition of a €7.5 million impairment loss on these assets in the interim financial statements as at 30 June 2020.

The Group did not recognise any impairment on Epicom's goodwill because of its unique business. In addition, the calculation of expected loss included the impact on the valuation of trade receivables (Note 8).

Impact on personnel:

The Group's top priority is and has always been to protect the health of its employees. Throughout almost the entire state of alarm, employees teleworked. All work centres adopted at least the measures recommended by the authorities. The Group verified that the measures at work sites were implemented correctly and demanded that customers take measures where work was performed at external facilities.

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Management considered the team/staff to be crucial for recovering, maintaining operations and delivering excellence to customers and suppliers. So, when the state of alarm was put in place, regular communication was kept to provide visibility and transparency regarding the situation at all times.

As described in Note 15, on 14 April 2020, several Group companies in Spain reached an agreement with workers' committees to avail of temporary layoffs citing reasons of production. The downsizing affected up to 672 employees in Spain, with a cap of 464 employees being furloughed at the same time. These layoffs produced savings of €1.8 million for the months they were in place in the first half of the year to 30 June. They remained in place where necessary and may continue through 20 October. Management Committee members also undertook to lower their salaries by 20%.

Impact on liquidity:

The Group was also hit by the temporary halt to negotiations with public authorities during the pandemic. In general, it suffered from a slowdown in certain administrative processes, such as the repatriation of excess funds in the Indian subsidiary to the Reserve Bank of India and the State Bank of India, or in Peru, where Duro Felguera was negotiating the orderly transfer of the ILO hydrocarbon terminal project to its customer, Petroperú.

The uncertainty caused by the global pandemic forced the Group to take steps to protect its interests in ongoing negotiations with a number of customers which were interrupted. A case in point was the granting of injunctions against the enforcement of guarantees provided in the Djelfa and Empalme projects.

Because of these direct COVID-19-related effects, the Group reported negative EBITDA for the six months ended 30 June 2020 of €103.2 million (see reconciliation between EBITDA calculated by the Group and operating profit or loss in Note 4) and a net loss for the period of approximately €114 million. Given the COVID impacts and in accordance with eligibility requirements, on 28 August 2020, Duro Felguera applied for €100 million of temporary public support from the Strategic Business Solvency Support Fund, as disclosed in Note 2.11.

Lastly, the Group's directors and management are monitoring developments of the situation on an ongoing basis to successfully address any potential financial and non-financial impacts that may arise.

4. Segment information

Note 5 to the Group's consolidated financial statements for the year ended 31 December 2019 sets out the criteria used by the Group to define its operating segments.

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

Segment information provided to the Board of Directors for the segments for which financial information is reported at 30 June 2020 and 2019 is as follows:

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	€ thousand							
	For the six months ended 30 June 2020							
	Energy	Mining & Handling	Oil & Gas	Specialised Services	Manufacturing	Other	Inter-group transactions	GROUP
Revenue from external customers	32,888	6,300	3,456	18,989	8,460	1,609	-	71,702
Inter-segment revenue	537	246	-	1,936	180	10,575	(13,474)	-
Total revenue	33,425	6,546	3,456	20,925	8,640	12,184	(13,474)	71,702
Interest income	14	429	13	708	1	2,202	(3,086)	281
Interest expense	-	(2)	(13)	(229)	(35)	(4,010)	3,086	(1,203)
Change in fair value of financial instruments	-	-	-	-	-	-	-	-
Exchange differences	(1,392)	1,565	(256)	195	(44)	(1,624)	-	(1,556)
EBITDA	(78,148)	(3,467)	(3,627)	(18,714)	(1,470)	2,241	-	(103,185)
Profit/(loss) before tax	(78,315)	(3,074)	(3,706)	(19,240)	(2,437)	(6,848)	-	(113,620)



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	€ thousand							
	For the six months ended 30 June 2019							
	Energy	Mining & Handling	Oil & Gas	Specialised Services	Manufacturing	Other	Inter-group transactions	GROUP
Revenue from external customers	58,300	61,176	33,091	18,042	4,543	3,266	-	178,418
Inter-segment revenue	742	276	2	11,952	426	11,065	(24,463)	-
Total revenue	59,042	61,452	33,093	29,994	4,969	14,331	(24,463)	178,418
Interest income	51	4,430	24	451	-	10,700	(9,632)	6,024
Interest expense	(3,260)	(653)	(178)	(144)	(40)	(4,317)	4,122	(4,470)
Change in fair value of financial instruments	-	-	-	-	-	2,523	-	2,523
Exchange differences	1,691	(29)	29	(221)	23	(1,142)	-	351
EBITDA	(16,092)	23,872	11,678	(1,466)	(2,809)	(4,377)	-	10,806
Profit/(loss) before tax	(19,347)	27,604	13,371	(3,319)	(3,790)	(2,840)	-	11,679

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

"Inter-group transactions" details inter-segment eliminations and adjustments.

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

	Six months ended 30 June	
	2020	2019
Operating profit/(loss)	(111,636)	8,326
Amortisation and depreciation	2,997	3,490
Impairment and gains/(losses) on disposal of fixed assets	7,010	(1,361)
Exchange differences	(1,556)	351
EBITDA	(103,185)	10,806

The negative EBITDA delivered in the first half of 2020 marked a reversal in the positive trend seen throughout 2019, due mostly to the crisis caused by COVID-19. The most significant impacts related to: provisions for cost overruns caused by the long execution periods in certain ongoing projects, such as Bellara, Iernut and Djelfa; estimates of termination costs for the Jebel Ali project for a total of approximately €81 million; and impairment losses on receivables caused by the reestimation of expected loss and others for €18.8 million. Overall EBITDA for the period was also affected by the operating shortfall caused to a lesser extent by the slowdown in the Group's other businesses.

The Group operates mostly internationally at present. The following table presents the breakdown of revenue at 30 June 2020 and 2019 by geographical area:

Geographical area	Six months ended 30 June			
	2020	%	2019	%
- Spain	20,217	28.20%	18,564	10.40%
- Latin America	1,802	2.51%	47,473	26.61%
- Europe	30,031	41.88%	72,673	40.73%
- Africa and the Middle East	13,259	18.49%	34,542	19.36%
- Asia Pacific	2,380	3.32%	4,997	2.80%
- Other	4,013	5.60%	169	0.10%
Total	71,702	100%	178,418	100%

Through 30 June 2020, segment sales with a single customer representing over 10% of the Group's revenue amounted to €16.7 million in Europe and €12.4 million in Africa and the Middle East for the Energy segment (30 June 2019: €21.6 million Europe for the Energy segment, €22.9 million and €26.9 million in Europe and Latin America, respectively, for Mining & Handling, and €23.5 million for Oil & Gas in Europe).

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Through 30 June 2020, revenue from significant external customers in Romania, Dubai and Spain amounted to €16.7 million, €12.4 million and €20.2 million, respectively (30 June 2019: €25 million, €22.9 million, €37.1 million, €21.6 million, €22.6 million and €18.6 million in Belgium, Belarus, Mexico, Romania, Algeria and Spain, respectively).

5. Financial risk management

5.1. Financial risk factors

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

The interim condensed consolidated financial statements do not include all the information and disclosures on financial risk management required for annual consolidated financial statements, so they should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2019.

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

Liquidity risk:

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

	€ thousand	
	At 30 June 2020	At 31 December 2019
Borrowings (Notes 8-10)	(92,566)	(99,927)
Less: Cash and cash equivalents	69,520	122,908
Net cash/(debt) position	(23,046)	22,981
Undrawn credit lines	-	-
Total liquidity reserves/(shortfall)	(23,046)	22,981

Liquidity risk rose higher in the first half of the year than envisaged in the 2020 cash plan mostly due the particularly strong impact of the coronavirus crisis on collection and payment flows. The net cash position in the first six months of 2020 decreased by €46,027 thousand, mainly as a result of delays in collections from certain customers; the rescheduling of projects, mainly Bellara, Iernut and Djelfa; the termination of the contract and enforcement of guarantees of the Jebel Ali project; the slowdown in collections of receivables from public authorities in various countries as a result of delays in administrative procedures; and the downturn in the real estate market in Spain caused by COVID, which resulted in delays in the disposals of assets earmarked in the cash plan.

Overall, the Group needs liquidity to cover both the shortfalls caused by trends in operations and repayments of borrowings. Therefore, as at the date of authorisation for issue of the accompanying financial statements, it was in negotiations with financial institutions in the bank pool. In addition, on 28 August 2020, the Group applied for temporary public support from the Strategic Business Solvency Fund as disclosed in Note 2.11.

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Of the balance of "Cash and cash equivalents" at 30 June 2020, a total of €30,540 thousand was restricted as it had been pledged as security for project guarantees or cash deposits made in lieu of project guarantees (31 December 2019: €40,035 thousand).

The Group has cash in different geographic locations under the ownership of certain subsidiaries, with restrictions in some cases on free transferability or repatriation. Of balances held abroad at 30 June 2020, an amount of €6,300 thousand related to the subsidiary in India and was subject to these restrictions. However, as at the date of authorisation for issue of the accompanying interim financial statements, the Group had taken all the required steps and managed to repatriate a portion of the funds in August. The remaining amounts held abroad are required for use in projects being carried out there.

5.2. Fair value estimation

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

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

The following table presents the Group's assets and liabilities measured at fair value at 30 June 2020:

	€ thousand			
	Level 1	Level 2	Level 3	Total
Assets				
Financial instruments at fair value through other comprehensive income:				
- Equity instruments	1	-	5,475	5,476
Total assets	1	-	5,475	5,476
 Liabilities				
Convertible bonds				
Total liabilities	-	-	-	-



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The following table presents the Group's assets and liabilities measured at fair value at 31 December 2019.

	€ thousand			
	Level 1	Level 2	Level 3	Total
Assets				
Financial instruments at fair value through other comprehensive income:				
- Equity instruments	1	-	5,476	5,477
Total assets	1	-	5,476	5,477
 Liabilities				
Convertible bonds				
Total liabilities	-	-	-	-

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

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

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The Group uses several methods and makes assumptions based on current market conditions, performing an annual valuation or, where information is not available, using audited public information as a reference. For the closing of the interim condensed financial statements for the six months ended 30 June 2020, the Group reassessed the key assumptions underlying the valuation to ensure that they were still applicable and decide whether they needed to be updated.

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

6. Assets and liabilities classified as held for sale

Although the Group is pressing on with its non-strategic asset disposal plan (mainly office buildings), the health crisis has severely impacted the real estate market, especially the office market. In the first half of 2020, the Group recognised impairment losses of €7,521 thousand on part of its real estate assets based on an independent expert appraisal. There were also delays in estimated sales periods, ruling out the possibility of the transactions being completed in the short term; the Group does not intend to embark on an active disposal process until the real estate market rebounds. Therefore, at 30 June 2020, since no agreements had been signed and the requirements in the current accounting framework were not met, the Group did not have any assets classified as available for sale.

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In the first half of 2019, the Group classified, under assets held for sale, the 20% stake in Duro Felguera Rail, S.A. and other real estate assets. The sale was carried out on 20 December and the previously recognised impairment loss of €1,581 thousand was recognised as a loss on disposal.

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

The changes in these balance sheet items in the six months ended 30 June 2020 are as follows:

	€ thousand		
	Intangible assets	Property, plant and equipment	Investment properties
Cost			
Balances at 1 January 2020	33,018	88,361	45,399
Additions - internally developed	91	-	-
Additions	-	90	-
Assets derecognised due to disposal or other means	-	(154)	(5,849)
Transfers and other movements	-	(285)	-
Balances at 30 June 2020	33,109	88,012	39,550
Accumulated amortisation/depreciation			
Balances at 1 January 2020	(18,549)	(50,985)	(15,135)
Provisions charged to profit or loss	(1,294)	(1,470)	(216)
Elimination of depreciation	-	149	4,411
Transfers and other movements	-	46	-
Balances at 30 June 2020	(19,843)	(52,260)	(10,940)
Impairment losses			
Balances at 1 January 2020	-	(245)	(2,937)
Provisions for impairment	-	(2,841)	(4,680)
Decreases for derecognition	-	-	1,399
Balances at 30 June 2020	-	(3,086)	(6,218)
Property, plant and equipment and investment properties, net			
Balances at 1 January 2020	14,469	37,131	27,327
Balances at 30 June 2020	13,266	32,666	22,392

The main movements in the six months ended 30 June 2020 related to impairment losses on certain real estate assets affected by the fall in property market prices caused by the COVID-19-related health crisis (Note 6). Investment property related to the facilities of the former Felguera Melt with a carrying amount of €39 thousand was derecognised.

Intangible assets include goodwill of €3,286 thousand (2019: €3,286 thousand) arising on the acquisition of Epicom, S.A. The recoverable amount of the goodwill was determined based on value-in-use calculations, with no impairment recognised in this connection. Capitalised development costs amounted to a net €2.2 million and related to several project efficiency initiatives and other smart systems, and ERP, for a net €5.5 million, which the Group will amortise over a period of eight years given the importance of the investment undertaken in previous years. The remainder related to computer software still in use by the Group.

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As at year-end 2019, there were no commitments to purchase assets at 30 June 2020.

At 30 June 2020, there were investment properties and items of property, plant and equipment with a carrying amount of €25,305 thousand as collateral and security guaranteeing agreements for suspension of the assessments of VAT, personal income tax and income tax-related party transactions (2019: €30,836 thousand).

The changes in these balance sheet items in the six months ended 30 June 2019 were as follows:

	€ thousand		
	Intangible assets	Property, plant and equipment	Investment properties
Cost			
Balances at 1 January 2019	32,946	90,358	52,461
Additions - internally developed	145	-	-
Additions	75	146	-
Transfers to non-current assets held for sale (Note 5)	-	-	(8,277)
Assets derecognised due to disposal or other means	(250)	(55)	-
Transfers and other movements	-	(15)	280
Balances at 30 June 2019	32,916	90,434	44,464
Accumulated depreciation			
Balances at 1 January 2019	(16,219)	(49,798)	(15,934)
Provisions charged to profit or loss	(1,412)	(1,818)	(260)
Elimination of depreciation	195	295	-
Transfers to non-current assets held for sale (Note 5)	-	-	1,741
Transfers and other movements	-	168	(197)
Balances at 30 June 2019	(17,436)	(51,153)	(14,650)
Impairment			
Balances at 1 January 2019	-	(297)	(2,937)
Provisions for impairment	-	(9)	(818)
Transfers to non-current assets held for sale (Note 5)	-	-	818
Balances at 30 June 2019	-	(306)	(2,937)
Property, plant and equipment and investment properties, net			
Balances at 1 January 2019	16,727	40,263	33,590
Balances at 30 June 2019	15,480	38,975	26,877

The main movements in the six months ended 30 June 2019 related to transfers of non-core real estate assets (Note 6) to non-current assets held for sale.

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8. Financial instruments

a) Financial assets

The breakdown of financial assets at 30 June 2020 and 31 December 2019, by nature of the asset and category, is as follows:

€ thousand			
	Amortised cost	Fair value through OCI	TOTAL
30 June 2020			
On-balance sheet assets			
- Equity instruments	-	5,476	5,476
- Receivables and other financial assets	137,353	-	137,353
Total	137,353	5,476	142,829

€ thousand			
	Amortised cost	Fair value through OCI	TOTAL
31 December 2019			
On-balance sheet assets			
- Equity instruments	-	5,477	5,477
- Receivables and other financial assets	192,313	-	192,313
Total	192,313	5,477	197,790

The Group assesses risk of impairment of receivables on a regular basis, updating it where appropriate on a case-by-case basis and taking into account the risk of default, the risk of impairment in the event of default, and current exposure. At 30 June 2020, the Group engaged an independent expert for assistance. The parent company's directors consider that the amount of trade and other receivables approximates their fair value. An impairment loss of €8,223 thousand was recognised in the six months ended 30 June 2020, bringing cumulative impairment losses to €123,125 thousand.

b) Financial liabilities

The breakdown of financial liabilities at 30 June 2020 and 31 December 2019, by nature of the liability and category, is as follows:

€ thousand			
	Fair value through profit or loss	Debts and payables (amortised cost)	TOTAL
30 June 2020			
On-balance sheet liabilities			
- Bank borrowings	-	85,302	85,302
- Finance lease liabilities	-	396	396
- Other financial liabilities	-	220,257	220,257
Total	-	305,955	305,955

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	€ thousand		
	Fair value through profit or loss	Debts and payables (amortised cost)	TOTAL
31 December 2019			
On-balance sheet liabilities			
- Bank borrowings	-	92,654	92,654
- Finance lease liabilities	-	64	64
- Other financial liabilities	-	262,450	262,450
Total	-	355,168	355,168

In the first half of 2020, the Group classified €85,000 thousand related to the syndicated loan as current since it was subject to early repayment and no waiver for breach of the gross financial debt/EBITDA ratio at 30 June 2020 had been given.

9. Equity

a) Capital

Share capital at 30 June 2020 was represented by 96 million fully subscribed and paid shares with a par value of €0.05 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.

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

<u>Shareholder</u>	% direct or indirect shareholding	
	At 30 June 2020	At 31 December 2019
Global Portfolio Investments, S.L.	-	5.63%
UBS Switzerland AG	3.96%	3.89%
TSK Electrónica y Electricidad, S.A.	3.12%	3.12%

b) Share premium

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

After the capital reduction to offset losses carried out in 2019, the share premium was reduced to zero.

c) Treasury shares

At 30 June 2020, the Company did not hold any treasury shares.

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d) Dividends

The Company did not distribute any dividends in the six months ended 30 June 2020 and 2019.

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

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

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

10. Borrowings

In the first half of 2020, the Group classified €85,000 thousand related to the syndicated loan as current since it was subject to early repayment and no waiver had been obtained from the financial institutions with which, as explained in Note 2.11, it was attempting to reach a financial restructuring agreement.

11. Provisions

The breakdown of "Provisions" in the interim condensed consolidated statement of financial position at 30 June 2020 and 31 December 2019 is as follows:

	€ thousand	
	At 30 June 2020	At 31 December 2019
Provisions for pensions and similar obligations	1,261	1,328
Other pension funds	1,261	1,328
Provisions for contingent liabilities and commitments	96,448	63,359
Provisions for contingent liabilities	96,448	63,359
	97,709	64,687

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The movements in the six months ended 30 June 2020 and 2019 in "Provisions" were as follows:

	€ thousand			
	Pensions and similar obligations	Provisions for completion of works and other trade provisions	Other provisions	Total
Balance at 1 January 2020	1,328	55,968	7,391	64,687
Provisions charged to profit or loss:				
Provisions	69	69,776	2,541	72,386
Reversals credited to profit or loss:				
Reversals	-	(13,556)	(134)	(13,690)
Payments or amounts used:				
Payments of pensions	(106)	-	-	(106)
Other payments	-	(8,643)	(185)	(8,828)
Other movements	(30)	(16,552)	(158)	(16,740)
Balance at 30 June 2020	1,261	86,993	9,455	97,709

Movements in the first half of 2020 related primarily to provisions for completion of works and other trade provisions, as follows:

- Provisions recognised related mainly to the reassessment of the Jebel Ali project following termination of the contract, for €47.2 million, and for project losses on the Djelfa project, for €21.9 million.
- Reversals related mainly to the amounts utilised for the provision of losses incurred as the related projects are executed, for €12.1 million, of which €11.4 million related to the Jebel Ali project, and reversals of other project risks, for €1.5 million.
- Other payments included €8.6 million swept from the Group's bank accounts for enforcement of guarantees for the Jebel Ali project.
- Other movements included mainly the amounts of provisions cancelled following the removal from the consolidation scope of subsidiary DF Australia Pty Ltd.

	€ thousand			
	Pensions and similar obligations	Provisions for completion of works and other trade provisions	Other provisions	Total
Balance at 1 January 2019	1,517	77,473	41,976	120,966
Provisions charged to profit or loss:				
Provisions	-	11,103	4,534	15,637
Reversals credited to profit or loss:				
Reversals	-	(21,782)	(19,573)	(41,355)
Payments or amounts used:				
Payments of pensions	-	-	-	-
Other payments	-	(2,203)	(7,617)	(9,820)
Other movements	5	8,975	(397)	8,583
Balance at 30 June 2019	1,522	73,566	18,923	94,011

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The movements in the first half of 2019 related mainly to:

Provisions for completion of works and other trade provisions

- Including provisions for project losses of €9,855 thousand and provisions for warranties and completion of works of €1,185 thousand.
- Reversals related mainly to the provision for losses incurred as the related projects are executed, for €751 thousand, and the cancellation of guarantees for €5,570 thousand. In addition, and following the favourable rulings on the GPL II and RVR projects in India, a total of €5,460 thousand of unused provisions was reversed, along with €9,999 thousand in connection with the Nueva Terminal de ILO project, which prompted the directors to re-estimate the project costs and, accordingly, the stage of completion and profitability.
- The amounts shown under "Other movements" related primarily to reclassifications of the current liability related to projects.

Other provisions

- Provisions for obligations with employees and those arising from the relocation of offices, for €4,384 thousand.
- Reversals amounting to €17,229 thousand related to the risks of the Roy Hill project; €1,399 thousand mainly because various disputes with suppliers in India have now been resolved; and €945 thousand to cover occupational hazards.

At the end of each reporting period, the Group assesses the estimated amounts required to settle liabilities for current, probable or certain litigation, the exact amount of which cannot yet be fully determined or the date of payment of which is uncertain as it depends on fulfilment of certain conditions, recognising the related provisions, where necessary. For other ongoing litigation at 30 June 2020 described in Note 16, after an in-depth analysis of the claims, a provision of €54,380 thousand was recognised on the liability side of the interim condensed consolidated statement of financial position for those considered probable (31 December 2019: €29,300 thousand). In the opinion of the parent company's directors and legal advisors, the potential impact on the Group of the remaining claims would not be material.

12. Public authorities and tax matters

The Group calculated the provision for income tax at 30 June 2020 in accordance with current tax legislation. However, any different tax treatments from those in current regulations arising from tax reforms would be applied immediately in the financial statements presented after approval of the reforms.

The effective tax rate for six months ended 30 June 2020 was 0.67% (30 June 2019: 57.6%). The amount recognised in the period related mainly to the positive impact on the income statement of a subsidiary in Mexico.

The tax group headed by the parent company sustained losses for the first six months of the year. As explained later in this note, the Group does not recognise tax credits in excess of the amount of deferred tax liabilities, so no income was recognised in this connection.

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a) Balances with public authorities

The main receivable and payable balances with public authorities are as follows:

	€ thousand	
	At 30 June 2020	At 31 December 2019
Receivable from public authorities		
Value added tax	29,449	32,511
Personal income tax withholdings	-	-
Prepaid taxes, income tax of other countries and non-resident withholdings	5,199	4,830
Receivable for refund of prior year's income tax	-	3,351
Other	801	1,119
	35,449	41,811
Other payables to public authorities		
Value added tax	(4,533)	(1,539)
Social Security payables	(2,126)	(1,443)
Other	(215)	(950)
Personal income tax withholdings	(1,166)	(847)
Other taxes	(405)	(388)
	(8,445)	(5,167)

b) Deferred tax assets

The Group recognised deferred tax assets up to the limit of the deferred tax liability as it considered that the circumstances for offsetting them are met since they relate to the same tax and tax group and can be utilised within the same time window without limitation under current legislation. The Group does not recognise deferred tax assets for tax losses, temporary differences and other remaining tax credits since the parent company's directors consider that their recoverability is not reasonably assured.

At 31 December 2019, the tax group had unused tax losses from prior years amounting to €35,371 thousand and estimated further tax losses arising in 2020 (30 June 2020: €27,361 thousand). There is no time limit for the set-off of these tax losses. However, there is a maximum limit of 25% of the tax base for the financial year, except for the amount of income arising from tax relief or deferrals granted in agreements with creditors, for which there is no limit.

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The Group also has unused deductions from prior years amounting to €5,690 thousand, of which €5,353 thousand relate to R&D+i expenditure, as follows:

Year arising	Item	Amount	Expiry
2012	R&D+i	1,639	2030
2013	R&D+i	985	2031
2014	R&D+i	883	2032
2015	R&D+i	611	2033
2016	R&D+i	408	2034
2017	R&D+i	360	2035
2018	R&D+i	263	2036
2019	R&D+i	204	2037

13. Related party transactions

In addition to subsidiaries, associates and jointly controlled entities, the Group considers as related parties shareholders with significant influence, key management personnel (i.e. members of the board of directors and executives and their close relatives), and entities over which key management personnel may exercise significant influence or have control or be influenced by them. Specifically, relationships exist in transactions carried out with agents outside the Group, but with which there is a relationship according to the definitions and criteria of the Spanish Ministry of Economy and Finance order EHA 3050/2004, of 15 September, and the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores) Circular 1/2005, of 1 April.

The following table presents the amounts recognised in the interim condensed consolidated statement of financial position at 30 June 2020 and in the consolidated income statement for the six months ended 30 June 2020 arising from related party transactions, in accordance with Order EHA/3050/2004, of 15 September.

	€ thousand			
	Significant shareholders	Directors and executives	Other related parties	Total
Income and expenses:				
Management or cooperation agreements	-	-	-	-
Expenses	-	-	-	-
	€ thousand			
	Significant shareholders	Directors and executives	Group employees, companies or entities	Total
Other transactions:				
Dividends and other benefits distributed	-	-	-	-
	-	-	-	-

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The amounts recognised in the interim condensed consolidated statement of financial position at 30 June 2019 and in the consolidated income statement for the six months ended 30 June 2019 arising from related party transactions are as follows:

	€ thousand			
	Significant shareholders	Directors and executives	Other related parties	Total
Income and expenses:				
Management or cooperation agreements	-	-	-	-
Expenses	-	-	-	-
 Other transactions:				
Dividends and other benefits distributed	-	-	-	-
	-	-	-	-

14. Compensation and other benefits paid to the board of directors of the parent and senior management
a) Board of Directors' remuneration:

The breakdown of the remuneration accrued by members of the parent's Board of Directors for their membership of the Board of Directors, by item, in the six months ended 30 June 2020 and 2019 is as follows:

Remuneration item:	€ thousand	
	30 June 2020	30 June 2019
Fixed remuneration	373	476
Variable remuneration	-	-
Attendance fees and other remuneration	-	-
	373	476

Directors did not receive any other benefits.

The six months ended 30 June 2020 featured the appointments as independent directors of Valeriano Gómez Sánchez and Jordi Sevilla Segura. Meanwhile, Ricardo de Guindos Latorre, Acacio F. Rodríguez García and Ignacio Soria Vidal resigned.

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b) Remuneration of senior executives

For the preparation of interim condensed consolidated financial information, senior executives include the eight employees comprising the Management Committee during the period (2019: six employees). Executives are considered to be individuals at the Group who, effectively or legally, perform senior management duties under the direct supervision of the Group's management body or executive committees, or its chief executive officers. The breakdown of the remuneration accrued by members of senior management, excluding members of the Board of Directors, in the six months ended 30 June 2020 and 2019 is as follows:

	At 30 June 2020	At 30 June 2019
Total remuneration paid to senior executives (€ thousand)	772	749
No. of senior executives at 30 June	8	6
Average remuneration (€ thousand)	<u>97</u>	<u>125</u>

15. Average number of employees

The distribution of the Group's average headcount in the six months ended 30 June 2020 and 2019 is as follows:

Average number of employees	No. of employees	
	At 30 June 2020	At 30 June 2019
Average number of employees	1,187	1,623
Men	991	1,359
Women	196	264

The Group's average headcount at 30 June 2020 was 763 employees on permanent employment contracts and 424 on temporary employment contracts (30 June 2019: 879 and 744, respectively).

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

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

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16. Contingencies

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

At 30 June 2020 and 31 December 2019, the Group had extended the following guarantees:

	€ thousand	
	At 30 June 2020	At 31 December 2019
Guarantees provided for bids in tenders	517	517
Guarantees provided in sales contracts in progress	203,128	321,358
Other	1,452	1,841
	205,097	323,716

As explained in Notes 7 and 17, the Group has provided certain assets as collateral, and granted pledges and cash restrictions to third parties. Certain projects signed by Group subsidiaries with customers are backed with the corporate guarantee of the Group's parent company ensuring compliance with the commercial terms.

Group management considers that the risks of litigation, arbitration and claims are reasonably covered by the provisions recognised in the accompanying interim condensed consolidated financial statements as at 30 June 2020, and does not expect any further significant liabilities to arise.

The Group's main contingencies are summarised as follows:

Lawsuit by the Special Prosecutor

Regarding 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, and also those matters discussed in the notes to the 2019 financial statements, as at the date of the accompanying interim financial statements no other actions or additional proceedings had occurred other than those discussed below.

On 4 September 2020, Central Examining Court no. 2 issued a ruling establishing a deadline for the proceedings of 28 July 2021, thereby repealing the order of 22 June 2020, which had a final date of 28 September 2020.

The ruling is predicated on Law 2/2020, of 27 July, amending article 324 of Spain's Criminal Procedure Act (*Ley de Enjuiciamiento Criminal*), which states that investigations must be carried out within a maximum period of 12 months, compared to six months before that article was amended.

This transitional provision of Law 2/2020 became effective as of 29 July. Accordingly, this would apply to the proceedings under way. The Court has set a date of 28 July 2020 as start date for calculating this 12-month period. Therefore, the final deadline is 28 July 2021.

As explained in the 2019 consolidated financial statements, the Group considered that the documentation and other actions included in the reports provide sufficient justification or contractual evidence of the payments made, as they are based on contractual obligations assumed by individuals duly authorised for their grant in ordinary contracts —the rendering of (advisory and technical assistance) services— and inherent in the activity comprising the Group's objects (given their nature as indivisible or at least complementary to obtaining and executing a major international contract). Moreover, this contractual evidence has enabled its documentary proof, accounting recognition, inclusion in the Group's official and only accounts, its financial statements, and its annual accounts, which are assured by the Group's auditors. In addition, although the Group's outlook and view of the potential impact is positive based on the internal investigation carried out, and it considers that,

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according to the information available to date, it is not possible to determine the probability or extent of the potential consequences, which will depend on the outcome of the criminal proceedings.

In light of the expert report issued by a third party, the evidence contained in the documentation provided in the Prosecutor's investigation and the pre-trial proceedings of the Central Examining Court, as well as information gleaned from testimonies given to the Prosecutor and the court, and, in general, all actions taken as at the date of the proceedings, the Group's defence argues that there is no evidence whatsoever that Duro Felguera S.A., its board or board members, executives, employees or representatives have authorised, been aware of and/or given consent to payments or granted improper advantages or benefits to authorities or public servants in Venezuela to corrupt them or induce them to infringe upon their public competences, powers or functions in negotiating, arranging and executing Termocentro's combined cycle plant construction project with C.A. Electricidad de Caracas. Therefore, no liability should be attributed to the Duro Felguera Group for any potential money laundering crimes, since there is no predicate offence, nor any involvement. Finally, the Group considers that the measure and policies outlined in its non-financial reporting are still appropriate.

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

National Markets and Competition Commission (CNMC)

In Case S/DC/612/17 initiated by the CNMC against various companies operating in the industrial assembly and maintenance services market, including DF Operaciones y Montajes, S.A., a ruling was delivered on 1 October 2019 declaring the existence of an infringement and imposing penalties upon 19 companies, including DF Operaciones y Montajes, S.A., such penalty amounting to €1,323 thousand, and prohibiting those companies from dealing with public sector companies for an as-yet unspecified scope and duration.

On 3 December 2019, the Group filed an appeal with the National Court (Audiencia Nacional) against this administrative decision and requested a precautionary suspension of the effectiveness of the sanction.

On 4 March 2020, notification was given of the ruling granting the suspension of payment of penalties contingent on providing sufficient guarantees within a period of two months. This period was suspended by Royal Decree 463/2020, of 14 March, declaring the state of alarm to manage the health crisis caused by COVID-19, and resumed on 5 June 2020 in accordance with Royal Decree-Law 16/2020, of 28 June, on procedural and organisational measures to deal with COVID-19 in the scope of the Administration of Justice.

The new period for providing guarantees expired on 23 August 2020. On 31 July 2020, a request was made to extend the deadline for providing the guarantee. The guarantee is expected to be provided during November, since properties of a sufficient amount, free of liens and encumbrances, have been determined internally on which to arrange a mortgage guarantee.

To cover this risk, the Group recognised a provision, which in the opinion of its internal legal advisors is sufficient.

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Contingencies and project claims

At the end of each reporting period, the Group assesses the estimated amounts required to settle liabilities for arbitration and/or current, probable or certain litigation in progress, the exact amount of which cannot yet be fully determined or the date of payment of which is uncertain, as it depends on fulfilment of certain conditions, recognising the related provisions, where necessary.

The Group is involved in certain legal and arbitration disputes as part of the process of completing projects with customers and suppliers, which do not differ significantly from those disclosed in Note 36 to the 2019 consolidated financial statements. Moreover, following the termination of the Jebel Ali contract (Note 3), the Group received notification that the customer had filed a lawsuit, which is currently being assessed by the Group's legal advisors. Since the proceeding is still in the early stages, there is uncertainty as to the potential final outcome. Nevertheless, the Group estimated what it considered to be the most reasonable outcome based on the circumstances of the project and accordingly recognised a provision in this connection. An in-depth assessment was performed on the remaining project claims, after which provisions were recognised at the amounts considered probable (Note 11). In the opinion of the parent company's directors and legal advisors, the potential impact on the Group of the remaining claims would not be material.

No relevant contingent assets were recognised relating to claims submitted by the Group that do not relate to contractually agreed amounts.

Other

Lastly, regarding the criminal complaint filed against former Chairman and Chief Executive Officer Ángel Antonio del Valle with the Gijón courts, pursuant to the agreement reached by the Board of Directors following the internal investigation carried out and reports by a prestigious law firm finding evidence of conduct that could incur criminal liability, the lawsuit was accepted for processing on 11 June 2020. Mr Del Valle's defence has appealed and Felguera's legal representatives have opposed. A decision on the appeal is pending.

17. Other information

As disclosed in Note 32 to the 2019 consolidated financial statements, an appeal against the tax assessments for the 2010-2012 period was lodged with the Central Tax Appeals Board (TEAC), for which a ruling by the TEAC has yet to be issued.

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

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

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

As for the suspension of assessments, as disclosed in Notes 32 and 41, on 3 March 2020 the National Court notified its ruling in favour of Duro Felguera issued on 13 February 2020, in which it found the TEAC's decision to reject the request for suspension to be unlawful, ordering the TEAC to accept and process the request for suspension, with retroactive effect to the date of presentation of the request of 4 September 2017. On 24 September 2020, the National Court said the ruling was final, so no further appeals may be filed.

For the assessments for 2013-2014, on 1 June 2020, the Company received the settlement agreements on the assessments signed under protest on 30 October 2019 disclosed in Note 32 to the 2019 consolidated financial statements, as follows:

- Settlement agreement whereby Duro Felguera, S.A. must pay €30,422 thousand in corporate income tax (€25,208 thousand in tax and €5,214 thousand in late-payment interest). On 1 July 2020 the Company filed a tax appeal against the settlement agreement before the TEAC. In addition, on 20 July 2020, the Company, while still within the voluntary payment period, requested suspension of enforcement of the settlement agreement with a full waiver of the collateral requirement.
- Settlement agreement whereby Duro Felguera, S.A. must pay €74 thousand in corporate income tax - related party transactions (€63 thousand in tax and €12 thousand in late-payment interest). Although the Company decided to settle the debt within the voluntary period for making payment, on 1 July 2020 it filed a tax appeal against the settlement agreement before the TEAC.

Further, on 30 July 2020, the resolution of sanction proceedings against UTE Termocentro for €5.6 million was received arising from the inspection of the 2013-2014 periods, which was the subject of an administrative complaint filed with the TEAC on 11 August 2020. The obligation to pay the penalty was suspended automatically when the claim was filed.

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

18. Events after the reporting period

The following significant events occurred between the closing date of the interim period for the six months ended 30 June 2020 and the date of authorisation for issue of the interim condensed consolidated financial statements:

- On 28 August 2020, Duro Felguera, S.A. applied for €100 million of temporary public support from the Strategic Business Solvency Support Fund (*Fondo de Apoyo a la Solvencia de Empresas Estratégicas*) through the following instruments, in accordance with the fund's application rules:
 - €70 million participating loan
 - €30 million capital increase to be subscribed by SEPI

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- On 17 September 2020, the Gijón Port Authority announced that the requirements for granting an extension to the concession of the land on which Duro Felguera Calderería Pesada, S.A.'s facilities are located had been met (El Tallerón). The concession now ends on 20 September 2033. Ratification by the Port Authority's Board of Directors is expected to be given soon.
- On 21 September 2020, Duro Felguera, S.A.'s Board of Directors agreed the appointment of Bernardo Gutiérrez de la Roza Pérez Secretary, non-director, of the Board of Directors to replace Secundino Felgueroso Fuentes.
- On 25 September 2020, the Board of Directors of Duro Felguera, S.A. agreed to call the Annual General Meeting for 28 October 2020, at 12:00 on first call, at Palacio de Congresos del Recinto Ferial Luis Adaro, Paseo Dr. Fleming, 481. 33203, Gijón, and at the same venue and time on 29 October 2020 at second call.
- Regarding the insolvency proceedings of Duro Felguera Australia Pty Limited ("DFA") commenced 28 February 2020 with the appointment of receivers (the "DFA receivers") by the Board of Directors of Duro Felguera, S.A. ("DFSA"), in accordance with the certification issued by the DFA receivers dated 6 October 2020, among other resolutions, approval was given unanimously from the creditors present in the Deed of Company Arrangement ("DOCA") under Australian legislation.

The most significant impacts of approval of this DOCA with respect to DFSA are as follows:

- DFSA has waived a loan in its favour of approximately €871 thousand at the exchange rate, for which a provision was recognised in 2019.
- DFA's liabilities will be settled exclusively with DFA's assets under the terms and conditions set out in the DOCA.
- DFA's directors will not seek any reimbursement for payments made of €60.1 million to DFSA between September and November 2019 as repayment of the loan granted previously by DFSA to DFA.

The approval of the DOCA is firm and final.

This removes any uncertainty regarding the possible reimbursements of amounts against the parent company disclosed in the 2019 consolidated financial statements and since the Group ceased to have control of DFA and removed it from the scope of consolidation on 28 February 2020, approval of the DOCA will have no economic impact on Duro Felguera.

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020(€ thousand)

**Interim Consolidated Management Report
for the six months ended 30 June 2020**

General performance

	€ thousand	
	30 June 2020 (Unaudited)	30 June 2019
Revenue	71,702	178,418
EBITDA ⁽¹⁾	(103,185)	10,806
Profit/(loss) before tax	(113,621)	11,679
Net financial debt ⁽²⁾	(23,046)	(18,348)
Order intake ⁽³⁾	52,377	51,356
Order backlog ⁽⁴⁾	360,351	667,996

(1) EBITDA is earnings before interest, tax, impairment and losses on assets, depreciation and amortisation. Calculation of EBITDA is disclosed in Note 4 to the interim condensed consolidated financial statements.

(2) Net financial debt is the amount of gross debt less cash and cash equivalents. Calculation of net financial debt is disclosed in Note 5 to the interim condensed consolidated financial statements.

(3) Order intake is the total amount of contracts won in the year, calculated by adding the amounts of each contract signed during the year.

(4) Order backlog is the amount pending execution of signed contracts held by the Company, calculated by subtracting the amount executed from the total amount of each contract.

The recovery begun in 2019 enabled the Group to become profit-making again after sustaining operating losses recorded in 2017 and 2018. However, was impacted heavily by the crisis situation caused by the pandemic.

While the Group made every effort from the outset, heeding the preventive measures issued by the World Health Organisation and other authorities and prioritising worker health and safety, the scale of COVID-19's impact on the economy made it impossible to extend the recovery seen in the 2019 financial statements.

Earnings for the first half of 2020 were marked by the impacts of COVID-19 described in Note 3, which resulted in direct operating losses from the reassessment of ongoing project budgets of approximately €81 million and other impairments recognised on receivables and certain real estate assets, giving a total impact of COVID of around €100 million.

Sales in the period totalled €71.7 million, down 59.8% year-on-year. The Group reported negative EBITDA of €103.2 million and a net attributable loss of €113.9 million.

At present, uncertainties have made investors skittish about undertaking investments, causing tendering to taper off sharply, order intake in the first half of the year totalled €52.4 million, broadly in line with the year-ago figure, but well short of expectations. The drop expected in order intake for full-year 2020 is over €200 million compared to the original budget for the year. This implies a 30-month delay in order intake targets and an estimated negative impact on margin of €12.5 million as a result of this lower contracting.



DURO FELGUERA, S.A. AND SUBSIDIARIES

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020(€ thousand)

Moreover, the Group is still operating without the guarantee facility promised in the refinancing agreement signed in 2018, making it even harder to secure new projects.

The order backlog at the end of the first half, after recognising the termination of the Jebel Ali project, stood at €360.4 million, with international projects making up 90% of the total.

The Group had €23 million of net financial debt at 30 June 2020, with €92.6 million of gross debt and €69.5 million of cash.

Average headcount for the Group went from 1,546 employees at 31 December to 1,187 employees at 30 June 2020.

Business outlook

The Group had been working on executing its 2019-2023 strategic plan, but COVID caused Duro Felguera to take new actions, implementing immediate action plans to overcome the crisis, adapt to the new normal and plan its future.

Its COVID response entails actions to secure liquidity and keep the business operating, including:

- Pro-active management to minimise project risks
- Request for public assistance
- Refinancing of outstanding debt with financial institutions
- Search for private investors

The Group's operations in the new paradigm require steps to boost profitability and optimise the business. Therefore, it is undertaking major actions to cut costs, secure public aid and adopt other measures to steer commercial actions towards geographies with low country risk.

The Group recently revised the 2020-2025 strategic plan to focus on strengthening its traditional businesses and grow in renewable energy and smart systems. The aim is to absorb the impact on the Group's accounts of the drop in new contracts and periods of lower activity brought on by the uncertainty caused by the health emergency.

However, in these circumstances, given the pandemic's impact on Duro Felguera and its effect on deviations relative to the 2020 budget, these measures alone are not enough to ensure its viability.

Therefore, in accordance with eligibility requirements, it has requested temporary public support from the Strategic Business Solvency Fund through the following instruments:

- €70 million participating loan
- €30 million capital increase to be subscribed by SEPI

The temporary public assistance is part of the Group's overall financial restructuring process, which also includes refinancing of the outstanding syndicated debt, granting a new ICO-backed liquidity facility, and a revolving guarantee facility covered by CESCE, all of which are currently under negotiation with the bank syndicate.

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020(€ thousand)

Unless it receives this temporary public support, the Group could find its extremely difficult to continue operating. Nevertheless, it is taking all the necessary measures and actions to comply with the milestones described previously. Therefore, the directors have prepared the interim condensed consolidated financial statements on a going concern basis, considering the favourable outlook for these processes.

Main risks and uncertainties

Operational risk

The main risk associated with turnkey projects relates to start-up and execution deadlines (technical risks). Thanks to the experience gained in this type of project, the Group boasts a strong performance track record. The project teams provide company management with regular progress reports.

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

However, the coronavirus crisis is having a temporary impact on the Group's operations. Project execution has slowed down in general and certain projects have been rescheduled. Executions periods have been extended while some projects have been terminated, with considerable negative impacts on the first half of 2020 (Note 3).

The uncertainty inherent in the situation makes it impossible to forecast future impacts. While negotiations are under way with customers and legal and contractual mechanisms are being implemented to mitigate the risks arising from the significant changes to project contracts, these risks are not eliminated entirely.

Market risk

(i) Foreign currency risk

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

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

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

Foreign currency risk arises when future commercial transactions or firm commitments, recognised assets and liabilities and net investments in foreign operations are denominated in a currency that is not the entity's functional currency. The Group's risk management policy is to hedge most of the forecast transactions over the life of each project. However, the operating units are responsible for taking decisions on arranging hedges, using external forward foreign currency contracts, with the involvement of the Group's Treasury Department. Nevertheless, there were no outstanding hedges at 30 June 2020.

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020(€ thousand)

(ii) Price risk

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

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

(iii) Cash flow and fair value interest rate risk

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

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

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

Based on the simulations performed, the impact on profit or loss of a 10 basis point shift would be an increase/decrease of €80 thousand (30 June 2019: €70 thousand).

a) Credit risk

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

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

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

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

Our main customers represented 68% of "Trade and other receivables" at 30 June 2020 (2019: 77%), relating to operations with the type of institutions indicated above. Accordingly, the Group considers that credit risk is extremely limited. In addition to the analysis performed before entering into a contract, the overall position of "Trade and other receivables" is monitored on an ongoing basis, while the most significant exposures (including the type of entities mentioned earlier) are monitored individually.

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b) Liquidity risk

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

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

	€ thousand	
	At 30 June 2020	At 31 December 2019
Borrowings	(92,566)	(99,927)
Less: Cash and cash equivalents	69,520	122,908
Net cash/(debt) position	(23,046)	22,981

As explained in Note 5.1, the Group needs liquidity to cover both the shortfalls caused by trends in operations and repayments of borrowings. Therefore, as at the date of authorisation for issue of the accompanying financial statements, it was in negotiations with financial institutions in the bank pool. In addition, on 28 August 2020, the Group applied for temporary public support from the Strategic Business Solvency Fund as disclosed in Note 2.11.

Of the balance of "Cash and cash equivalents" at 30 June 2020, a total of €30,540 thousand was restricted as it had been pledged as security for project guarantees or cash deposits made in lieu of project guarantees (31 December 2019: €40,035 thousand).

As discussed previously, the Group continues to pursue various strategic actions with the ultimate aim of improving its liquidity and ensuring the continuing operation of the business.

Derivative financial instruments

As at 30 June 2020, the Group had not entered into any derivative financial instruments.

Treasury share transactions

At 30 June 2020 and 2019, the parent company did not hold any treasury shares.

Research and development activities

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

In the first half of 2020, despite budget constraints, the Group pressed on with R&D+i projects that were already under way at the start of the year, investing a total of €91 thousand (30 June 2019: €145 thousand).

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2020(€ thousand)

Significant events after the reporting period

The following significant events occurred between the closing date of the interim period for the six months ended 30 June 2020 and the date of authorisation for issue of the interim condensed consolidated financial statements:

- On 28 August 2020, Duro Felguera, S.A. applied for €100 million of temporary public support from the Strategic Business Solvency Support Fund (*Fondo de Apoyo a la Solvencia de Empresas Estratégicas*) through the following instruments, in accordance with the fund's application rules:
 - €70 million participating loan
 - €30 million capital increase to be subscribed by SEPI
- On 17 September 2020, the Gijón Port Authority announced that the requirements for granting an extension to the concession of the land on which Duro Felguera Calderería Pesada, S.A.'s facilities are located had been met (El Tallerón). The concession now ends on 20 September 2033. Ratification by the Port Authority's Board of Directors is expected to be given soon.
- On 21 September 2020, Duro Felguera, S.A.'s Board of Directors agreed the appointment of Bernardo Gutiérrez de la Roza Pérez Secretary, non-director, of the Board of Directors to replace Secundino Felgueroso Fuentes.
- On 25 September 2020, the Board of Directors of Duro Felguera, S.A. agreed to call the Annual General Meeting for 28 October 2020, at 12:00 on first call, at Palacio de Congresos del Recinto Ferial Luis Adaro, Paseo Dr. Fleming, 481. 33203, Gijón, and at the same venue and time on 29 October 2020 at second call.
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- DFSA has waived a loan in its favour of approximately €871 thousand at the exchange rate, for which a provision was recognised in 2019.
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**DURO FELGUERA, S.A. AND SUBSIDIARIES****Condensed consolidated interim financial statements and management report for the six months ended 30 June 2020**

The undersigned, whose positions appear alongside their names, HEREBY STATE, under their responsibility, that the interim condensed consolidated financial statements and interim consolidated management report for the first half of 2020 of DURO FELGUERA, S.A. and Subsidiaries include the accounting records of all Spanish and international investees comprising the scope of consolidation in accordance with applicable company law and accounting regulations, and present, in all material respects, a true and fair value of the Group's equity and financial position at the end of the first half, and the results of its operations and changes in its financial position in the first half of 2020, and contain the necessary and sufficient disclosures for their adequate understanding, in accordance with applicable regulations.

Gijón, 27 October 2020.

Rosa Isabel Aza Conejo
Chairman

José María Orihuela Uzal
Chief Executive Officer

José Julián Massa Gutiérrez del Álamo
Director

Valeriano Gómez Sánchez
Director

Jordi Sevilla Segura
Director

Certification: For the record, the accompanying interim condensed consolidated financial statements and interim management report for the six months ended 30 June 2020 authorised for issue by the board of directors at its meeting held on 27 October 2020 are those initialled by the Secretary of the Board. The legitimacy of the signatures of all of the Company's directors contained in this document is also hereby certified.

Bernardo Gutiérrez de la Roza
Secretary of the Board



DURO FELGUERA, S.A. AND SUBSIDIARIES

Condensed consolidated interim financial statements and management report for the six months ended 30 June 2020

STATEMENT OF RESPONSIBILITY FOR THE INTERIM FINANCIAL REPORT OF DURO FELGUERA, S.A. FOR THE FIRST HALF OF 2020

In compliance with art. 11 b) of Royal Decree 1362/2007, of 19 October, implementing Law 24/1988, of 28 July, on the Securities Market, the undersigned directors of the Company state that, to the best of their knowledge, the interim condensed consolidated financial statements for the first half of 2020, prepared in accordance with applicable accounting principles, provide a true and fair view of the equity, financial position and results of DURO Felguera, S.A. and consolidated companies taken as a whole, and that the interim consolidated management report provides an accurate analysis of the information required.

The interim condensed consolidated financial statements for the first half of 2020 of DURO FELGUERA, S.A. and Subsidiaries and the interim consolidated management report were signed by all the directors.

Gijón, 27 October 2020.

Rosa Isabel Aza Conejo
Chairman

José María Orihuela Uzal
Chief Executive Officer

José Julián Massa Gutiérrez del Álamo
Director

Valeriano Gómez Sánchez
Director

Jordi Sevilla Segura
Director