TÉCNICAS REUNIDAS, S.A.
AND SUBSIDIARIES

Report on Limited Review of
Condensed Interim Consolidated Financial Statements
as at June 30, 2017

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

REPORT ON LIMITED REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Técnicas Reunidas, S.A.

Report on the Condensed Interim Consolidated Financial Statements

Introduction

We have performed a limited review of the accompanying condensed interim consolidated financial statements (hereinafter, the interim financial statements) of Técnicas Reunidas, S.A. (hereinafter, the parent company) and its subsidiaries (hereinafter, the group), which comprise the interim balance sheet as at June 30, 2017, and the interim income statement, interim statement of other comprehensive income, interim statement of changes in equity, interim cash flow statement and related notes, all condensed and consolidated, for the six months period then ended. The parent company´s directors are responsible for the preparation of 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 condensed interim financial information, as provided in Article 12 of 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 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". 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 legislation governing the audit practice 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 these interim financial statements.

Conclusion

Based on our limited review, that cannot be considered as an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six months period ended June 30, 2017 have not been 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 condensed interim financial statements, as provided in Article 12 of Royal Decree 1362/2007.

Emphasis of Matter

We draw attention to Note 2, in which it is mentioned that these interim financial statements do not include all the information required of complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, therefore the accompanying interim financial statements should be read together with the consolidated annual accounts of the group for the year ended December 31, 2016. This matter does not modify our conclusion.

Report on Other Legal and Regulatory Requirements

The accompanying interim consolidated directors’ Report for the six months period ended June 30, 2017 contains the explanations which the parent company´s directors consider appropriate regarding the principal events of this period and their impact on the interim financial statements presented, of which it does not form part, as well as the information required under the provisions of Article 15 of Royal Decree 1362/2007. We have verified that the accounting information contained in this directors’ Report is in agreement with that of the interim financial statements for the six months period ended June 30, 2017. Our work is limited to checking the interim consolidated directors’ Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Técnicas Reunidas, S.A. and its subsidiaries´ accounting records.

Other Matter

This report has been prepared at the request of the directors in relation to the publication of the half-yearly financial report required by Article 119 of Royal Legislative Decree 4/2015 of 23 October, approving the revised text of the Securities Market Law developed by the Royal Decree 1362/2007, of 19 October.

PricewaterhouseCoopers Auditores, S.L.	Deloitte, S.L.
Original in Spanish signed by	Original in Spanish signed by
Goretty Álvarez July 28, 2017	F. Javier Peris Álvarez July 28, 2017

This version of the condensed interim consolidated financial statements is a free translation from the original, which is prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the annual accounts takes precedence over this translation.

TÉCNICAS REUNIDAS, S.A.
AND SUBSIDIARIES

Condensed Interim Consolidated Financial Statements
and interim consolidated Directors' Report for
the six month period ended June, 30 2017

Contents of the Condensed Interim Consolidated Financial Statements for Técnicas Reunidas, S.A. and Subsidiaries

TECNICAS REUNIDAS, S.A. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2017
(Thousand euros)

	Notes	At 30 June 2017 (non-audited)	At 31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	**9**	49,709	62,870
Goodwill	**9**	1,242	1,242
Other intangible assets	**9**	5,478	5,545
Equity Investments in Group Companies and associates- Long Term		13,345	13,128
Deferred tax assets		214,623	225,753
Available-for-sale financial assets	**10.a**	1,016	1,016
Derivatives	**10.a**	6,334	2,780
Receivables and other assets	**10.a**	21,210	20,789
		312,957	**333,123**
Current assets			
Non-Current Assets held for sale	**11**	58,924	59,039
Inventories		16,887	16,992
Trade and other receivable accounts		2,829,690	2,406,307
Other financial assets	**10.a**	21,218	16,677
Derivatives	**10.a**	29,661	14,755
Financial assets at fair value	**10.a**	67,435	64,169
Cash and cash equivalents		565,151	688,269
		3,588,966	**3,266,208**
Total assets		**3,901,923**	**3,599,331**

Notes 1 to 19 in the accompanying Notes to the Financial Statements form an integral part of these Condensed Interim Consolidated Financial Statements.

TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2017
(Thousand euros)

	Notes	At 30 June 2017 (non-audited)	At 31 December 2016
EQUITY			
Capital and reserves attributable to owners of the parent company			
Share capital	**11**	5,590	5,590
Share premium		8,691	8,691
Treasury shares	**11**	(73,922)	(72,623)
Legal reserve		1,137	1,137
Capitalization reserve		3,056	3,056
Hedging reserve		(6,436)	(73,427)
Translation differences		(34,646)	(17,630)
Retained earnings		600,881	618,782
Interim dividend		-	(35,852)
Equity attributable to owners of the parent company		**504,351**	**437,724**
Non-controlling interests		**13,639**	**4,102**
Total equity		**517,990**	**441,826**
LIABILITIES			
Non-current liabilities			
Debts to credit institutions	**10.d**	13,685	155,212
Derivatives	**10.b**	2,482	4,383
Deferred tax liabilities		29,578	21,428
Other payables	**10.b**	544	409
Other liabilities	**10.b**	42	42
Long-term employee benefit obligations		2,182	2,248
Other provisions	**12**	67,932	34,976
		116,445	**218,698**
Current liabilities			
Trade payables		2,734,549	2,570,543
Current tax liabilities		61,071	67,793
Borrowings related to assets classified as held for sale		23,015	24,474
Debts to credit institutions	**10.d**	370,575	84,923
Derivatives	**10.b**	31,346	147,092
Other payables	**10.b**	39,836	36,733
Other provisions		7,096	7,249
		3,267,488	**2,938,807**
Total liabilities		**3,383,933**	**3,157,505**
Total equity and liabilities		**3,901,923**	**3,599,331**

Notes 1 to 19 in the accompanying Notes to the Financial Statements form an integral part of these Condensed Interim Consolidated Financial Statements.

TECNICAS REUNIDAS, S.A. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017
(Thousand euros)

	Notes	Six month period ended 30 June 2017 (non-audited)	Six month period ended 30 June 2016 (non-audited)
Revenue		2,627,972	2,303,938
Change in inventory of finished goods and work in progress		89	514
Consumption of goods		(1,965,931)	(1,629,329)
Employee benefit expense		(299,436)	(296,734)
Depreciation/amortisation and impairment charges	**9**	(12,522)	(10,162)
Lease and royalty expenses		(36,168)	(26,228)
Other expenses		(210,498)	(253,528)
Other income		1,104	3,907
Operating profit		**104,610**	**92,378**
Finance income		5,046	4,190
Finance expense		(6,187)	(5,192)
Net exchange differences		(7,991)	1,573
Financial income/(expense)		**(9,132)**	**571**
Share in profit/(loss) of associates		(1,389)	(3,306)
Profit before taxes		**94,089**	**89,643**
Income tax	**8**	(27,286)	(23,757)
Profit for the period		**66,803**	**65,886**
Profit/(loss) from discontinued operations		**(167)**	**-**
Profit for the period		**66,636**	**65,886**
Attributable to:			
Owners of the parent		57,099	65,705
Non-controlling interests		9,537	181
		66,636	**65,886**
Basic and diluted earnings per share of the continuing activities attributable to the owners of the parent (euros per share)	**12**	1.06	1.22
Basic and diluted earnings per share attributable to the owners of the parent (euros per share).	**12**	1.06	1.22

Notes 1 to 19 in the accompanying Notes to the Financial Statements form an integral part of these Condensed Interim Consolidated Financial Statements.

TECNICAS REUNIDAS, S.A. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017
(Thousand euros)

	Six month period ended 30 June	
	2017 (non-audited)	**2016 (non-audited)**
Profit for the period	**66,636**	**65,886**
Other comprehensive income:		
Items that will not be reclassified to profit or loss	-	-
Total items that will not be reclassified to profit or loss	-	-
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges	84,284	45,737
Tax effect	(17,293)	(11,434)
Cash-flow hedges, net of taxes	66,991	34,303
Translation differences	(17,016)	(5,140)
Total items that may be reclassified subsequently to profit or loss	**49,975**	**29,163**
Total comprehensive income for the period	**116,611**	**95,049**
Attributable to:		
- Owners of the parent	107,074	94,868
- Non-controlling interests	9,537	181
Total comprehensive income for the period	**116,611**	**95,049**
Total comprehensive income attributable to the owners of the parent company for the period from:		
- Continued operations	116,778	95,049
- Discontinued operations	(167)	-
	116,611	**95,049**

Notes 1 to 19 in the accompanying Notes to the Financial Statements form an integral part of these Condensed Interim Consolidated Financial Statements.

TECNICAS REUNIDAS, S.A. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017
(Thousand euros)

	Attributable to owners of the Parent Company								
	Share Capital and Share Premium	Treasury Shares	Legal and Capitalization reserves	Hedging reserves	Translation differences	Retained earnings	Interim dividend	Non-Controlling interest	Total Equity
At 1 January 2017	**14,281**	**(72,623)**	**4,193**	**(73,427)**	**(17,630)**	**618,782**	**(35,852)**	**4,102**	**441,826**
Profit for the period									
Profit for the half year	-	-	-	-	-	57,099	-	9,537	66,636
Cash flow hedges, net from taxes	-	-	-	66,991	-	-	-	-	66,991
Translation differences	-	-	-	-	(17,016)	-	-	-	(17,016)
Total other comprehensive income	-	-	-	66,991	(17,016)	-	-	-	49,975
Total other comprehensive income for the period	**-**	**-**	**-**	**66,991**	**(17,016)**	**57,099**	**-**	**9,537**	**116,611**
Transactions with owners in the capacity as owners:									-
Transactions with shares or treasury shares (net)	-	(1,299)	-	-	-		-	-	(1,299)
Distribution of the 2016 profit	-	-	-	-	-	(75,000)	35,852	-	(39,148)
Transactions with owners in the capacity as owners:	**-**	**(1,299)**	**-**	**-**	**-**	**(75,000)**	**35,852**	**-**	**(40,447)**
At 30 June 2017 (non-audited)	**14,281**	**(73,922)**	**4,193**	**(6,436)**	**(34,646)**	**600,881**	**-**	**13,639**	**517,990**

Notes 1 to 19 in the accompanying Notes to the Financial Statements form an integral part of these Condensed Interim Consolidated Financial Statements

TECNICAS REUNIDAS, S.A. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016
(Thousand euros)

	Attributable to owners of the Parent Company							Non-Controlling interest	Total Equity
	Share Capital and Share Premium	Treasury Shares	Legal and Capitalization reserves	Hedging reserves	Translation differences	Retained earnings	Interim dividend		
At 1 January 2016	**14,281**	**(74,150)**	**1,137**	**(93,203)**	**(4,165)**	**585,713**	**(35,830)**	**3737**	**397,520**
Profit for the period									
Profit for the half year	-	-	-	-	-	65,705	-	181	65,886
Cash flow hedges, net from taxes	-	-	-	34,303	-	-	-	-	34,303
Translation differences	-	-	-	-	(5.140)	-	-	-	(5,140)
Total other comprehensive income	-	-	-	34,303	(5,140)	-	-	-	29,163
Total other comprehensive income for the period	**-**	**-**	**-**	**34,303**	**(5,140)**	**65,705**	**-**	**181**	**95,049**
Transactions with owners in the capacity as owners:									-
Transactions with shares or treasury shares (net)	-	(184)	-	-	-		-	-	(184)
Distribution of the 2015 profit	-	-	3,056	-	-	(78,056)	35,830	-	(39,170)
Other movements	-	-	-	-	-	(15,933)	-	(34)	(15,967)
Transactions with owners in the capacity as owners:	**-**	**(184)**	**3,056**	**-**	**-**	**(93,989)**	**35,830**	**(34)**	**(55,321)**
At 30 June 2016 (non-audited)	**14,281**	**(74,334)**	**4,193**	**(58,900)**	**(5,140)**	**557,429**	**-**	**3,884**	**437,248**

Notes 1 to 19 in the accompanying Notes to the Financial Statements form an integral part of these Condensed Interim Consolidated Financial Statements

TECNICAS REUNIDAS, S.A. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017 (Thousand euros)

	Six month period ended 30 June	
	2017 (non-audited)	**2016 (non-audited)**
Cash flows from operating activities		
Profit for the period	66,636	65,886
Adjustments for:		
- Income tax	27,286	23,757
- Depreciation/amortisation of PPE and intangible assets	12,522	10,162
- Change in provisions (net)	32,803	5,052
- Share in (profit)/loss of associates	1,389	3,306
- Changes in fair value of financial instruments	(3,266)	1,485
- Interest income	(1,780)	(4,190)
- Interest expense	6,187	5,192
- Change in gains/losses on derivatives	(37,424)	(24,798)
- Translation differences	7,992	(1,573)
Changes in working capital		
- Inventories	105	491
- Trade and other receivables	(426,076)	(125,001)
- Other financial assets	(13,193)	(28,884)
- Trade payables	149,787	98,700
- Other accounts payable	3,239	-
- Other changes	(24,781)	12,449
Other flows from operating activities:		
- Other amounts paid/(received)	-	(34)
- Interest paid	(6,187)	(5,192)
- Interest received	1,780	4,190
- Income taxes paid	(19,036)	(9,425)
Net cash from/(used in) operating activities	**(222,017)**	**31,573**
Cash flows from investing activities		
Purchases of property, plant and equipment	(4,069)	(5,119)
Purchases of intangible assets	(990)	(1,574)
Investment in group companies and associates	(1,591)	-
Investment in other non-current assets	-	(6)
Disinvestment in other non-current assets	34	1,222
Net cash used in investing activities	**(6,616)**	**(5,477)**
Cash flows from financing activities		
Borrowing issuance	380,608	-
Repayment of borrowings	(237,942)	(56,836)
Dividends paid	(35,852)	(35,830)
Acquisition of treasury shares (net)	(1,299)	(184)
Net cash used in financing activities	**105,515**	**(92,850)**
Net increase/decrease in cash and cash equivalents	**(123,118)**	**(66,754)**
Cash and cash equivalents at beginning of the period	**688,269**	**708,840**
Cash and cash equivalents at end of the period	**565,151**	**642,086**

Notes 1 to 19 in the accompanying Notes to the Financial Statements form an integral part of these Condensed Interim Consolidated Financial Statements

TECNICAS REUNIDAS, S.A. AND SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

Free translation of the condensed consolidated interim financial statements for the six month period ended 30 June 2017 originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

1. Company information

TÉCNICAS REUNIDAS, S.A. (the "Company" and together with its subsidiaries, the "Group") was incorporated on 6 July 1960 as a limited liability company ("Sociedad Anónima"). It is entered in the Madrid Companies Register in volume 1407, sheet 129, page 5692. The latest adaptation and amendment of its Articles of Association is registered in volume 22573, section 8, book 0, sheet 216, page M-72319, entry 192.

The registered offices of TÉCNICAS REUNIDAS, S.A. are located at Arapiles Street, 14, 28015 Madrid (Spain). It is headquartered in Madrid, at Arapiles Street, 13, 28015 Madrid (Spain).

The Group's corporate purpose is described in the article 4 of the Bylaws and consists of the performance of all classes of engineering services and the construction of industrial plants, ranging from viability or basic and conceptual engineering studies to turnkey engineering, design and construction of large, complex projects, management of supply, equipment and material deliveries and construction of plants and related or associated services, such as technical assistance, construction supervision, project management, technical management, start-up and training.

Within its engineering services business, the Group operates through a number of business lines, mainly in the refinery, gas , power and infrastructure sectors.

Since 21 June 2006, the shares of Técnicas Reunidas, S.A. have been admitted to trading on the four Spanish stock exchanges and the continuous market and are part of the Ibex 35 index.

The companies that make up the Group end their financial year on 31 December. During the first semester of 2017, non-controlling interests have increased due to the global integration of a Joint Venture.

The financial statements for Técnicas Reunidas, S.A. (Parent Company) and the consolidated financial statements for Técnicas Reunidas, S.A. and Subsidiaries for 2016 were approved by shareholders at a General Meeting held on 29 June 2017.

These consolidated condensed interim financial statements have been prepared and approved by the Board of Directors at a meeting held on 27 July 2017. The consolidated condensed interim financial statements have been submitted to a limited review and have not been audited.

The figures set out in these consolidated condensed interim financial statements (hereinafter the interim financial statements) are presented in thousand euros, unless expressly indicated otherwise.

2. Basis of presentation

The consolidated condensed interim financial statements for the six month period ended 30 June 2017 have been prepared in accordance with IAS 34 "Interim financial information" and do not include all the information required by a complete set of financial statements in accordance with the International Finance Reporting Standards adopted by the European Union, and should be read together with the consolidated financial statements for the year ended 31 December 2016, prepared in accordance with International Financial Reporting Standards adopted as by the European Union (IFRS-EU).

3. Accounting policies

Except for the issues mentioned below, the accounting policies applied are uniform with respect to those applied in the 2016 consolidated financial statements.

The taxes accrued on the profits obtained in interim periods are calculated based on the tax rate applicable to the total projected annual profit.

3.1. Mandatory standards, amendments and interpretation for all years starting 1 January 2017:

At the date of signing of these condensed interim consolidated financial statements, the IASB and IFRS Interpretations Committee had published the standards, amendments and interpretations indicated below which application is not yet mandatory and the Group has not adopted in advance.

- IFRS 15 “Revenue from Contracts with Customers”
- IFRS 9 “Financial Instruments”

The Group is currently assessing the impacts of the new standards, amendments and interpretations which have been approved by IASB and are not been yet mandatory.

IFRS 15. Revenue from Contracts with Customers

IFRS 15 will replace, as from the financial year commencing 1 January 2018, the following standards currently in force:

- IAS 18 Revenue,
- IAS 11 Construction contracts,
- IFRIC 13 Customer loyalty programmes,
- IFRIC 15 Agreements for the construction of real estate,
- IFRIC 18 Transfers of assets from customers and
- SIC- 31 Revenue – Barter Transactions Involving Advertising Services

According to IFRS 15, revenue should be recognised in such a way that the transfer of goods or services to customers is disclosed at an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods or services. This approach is based on five steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the obligations under the contract.
- Step 3: Determine the price of the transaction.
- Step 4: Allocate the price of the transaction among the contract obligations.
- Step 5: Recognise revenues when (or as) the entity complies with each of the obligations.

Under IFRS 15, income should be recognised as the obligations included in the contract are met. In addition, more detailed disclosures are required.
The Group is in the process of assessing this standard, the option to be applied at the transition date and the updating of its internal policies with the aim of defining the criteria for the application of IFRS 15 in the business areas of Técnicas Reunidas and to the various types of contract.

In parallel, a qualitative and quantitative analysis of the main changes involved in the new standard is being carried out. This analysis on the quantification of the impacts of first application that will arise on the transition date will be completed during the second half of 2017.

The impacts identified mainly relate to the following items:

- Identification of performance obligations in contracts and pricing. In relation to dual or instalment contracts, it is currently considered that there is a single performance obligation, income from which is recognised on a uniform basis over the implementation of the contract. With the new standard is necessary to evaluate, for each contract, whether various performance obligations should be recognised (IFRS 15 p. 22), as well as price allocation on the basis of the contracts, provided that they are set at arm's length. However, given the general characteristics of turnkey contracts (EPC) undertaken by the Group, a significant impact is not expected.

- Approval requirements in revenue recognition due to contract amendments and items for which claims could be made. IFRS 15 requires approval by the customer (IFRS 15 p.18), which is more demanding than the probability requirement under the current standard. In the event of amendments or claims in which the customer has approved the scope of the work but its valuation is outstanding, revenue will be recognised at the amount that is highly likely not to undergo a significant reversal in the future. Given the current Group policy for the recognition of amendments and claims, this is not expected to have a significant impact.

- Identification and recognition of the costs of obtaining contracts (IFRS 15 p. 91) and the costs of fulfilling contracts (IFRS 15 p. 95). IFRS 15 specifies that only those costs identified as incremental may be capitalised, which requires a detailed analysis of the costs of obtaining a contract by identifying the incremental costs and the expectations concerning their recovery. The Group is in the process of reviewing and analysing potential impacts resulting from this change; however, the capitalised amount of this type of costs is currently not significant.

- Establishment of a consistent revenue recognition method for contracts with similar characteristics. The new standard requires using a consistent revenue recognition method for contracts and performance obligations with similar characteristics (IFRS 15 p.40). The application of this rule does not imply a change in the criterion currently used by the Group.

With regard to information systems, the current systems will be maintained and certain controls included in them will have to be adapted.

IFRS 9 Financial instruments:

The standard will be mandatory as from 1 January 2018 and the group is currently evaluating the main impacts, which are related to the following areas:

- Hedge accounting. The standard seeks to align hedge accounting with risk management more closely, the new requirements taking a principles-based approach. The Group has not yet identified any impacts associated with its current application of hedge accounting.

- Impairment of financial assets. IFRS 9 replaces the losses incurred model under IAS 39 by an expected losses approach. Under the new standard, the provision for losses is to be calculated on the basis of expected losses over the next 12 months or the entire life of the instruments on the basis of a significant increase in risk. The Group is currently analysing the different approaches allowed under IFRS 9 and does not expect a significant impact, given that at present it has already established a procedure that considers possible expected losses and the credit quality of its customers, mostly large public and private oil and gas companies.

- Classification and valuation of financial assets. The main categories of the new classification are: measurement at amortised cost, fair value against results and fair value against equity. With regard to the measurement of financial liabilities, IFRS 9 does not change with respect to IAS 39, except for the part of the own credit risk in the fair value option, which will be recognised against equity.

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

3.2. Standards, amendments and interpretations applied to existing standards that can not be adopted in advance or have not been adopted to date by the European Union:

At the date of these condensed interim consolidated financial statements were signed, the IASB and IFRS Interpretations Committee had published the standards, amendments and interpretations indicated below, pending to be adopted by the European Union.

- IFRS 10 (Amendment) y IAS 28 (Amendment) “Selling Assets between an investor and his joint business”;
- IFRS 16, “Leases”;
- IAS 7 (Amendment), “Disclosure Initiative”;
- IAS 12 (Amendment), “Recognition of Deferred Tax Assets for Unrealized Losses”;
- IFRS 15 (Amendment), “Final amendment to the new revenue standard issued”;
- IFRS 2 (Amendment), “Share-based Payment”;
- IFRS 4 (Amendment), “ Insurance Contracts”;
- Annual improvements to IFRS. Cycle 2014-2016:
    - IFRS 1, “First-time Adoption of International Financial Reporting Standards”;
    - IFRS 12, “Disclosure of Interests in Other Entities”;
    - IAS 28, “Investments in Associates and Joint Ventures
- IAS 40 (Amendment), “Investment Property”;
- IFRIC 22, “Foreign Currency Transactions and Advance Consideration”;
- IFRIC 23, “Uncertainty over Income Tax Treatments”

The Group is in the process of analysing the impacts that the new legislation could have on its consolidated financial statements.

4. Estimates

The preparation of these condensed interim consolidated financial statements requires management to apply judgment, estimates and assumptions that affect the application of the accounting policies and the amounts presented under assets and liabilities and revenues and expenses. Actual results may differ from these estimates.

When preparing these condensed interim consolidated financial statements, the important judgments used by management to apply the Group's accounting policies and the key sources of uncertainty within these estimates are the same as those applied in the consolidated financial statements for the year ended 31 December 2016, with the exception of the changes in the estimates to calculate the provision for corporate income tax (see Note 3).

5. Financial risk management

5.1 Financial risk factors

The Group's activities are exposed to several financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk.

The condensed interim consolidated financial statements do not include all of the information and breakdowns regarding financial risk management that are mandatory for the annual accounts and therefore they should be read together with the Group's annual accounts for the year ended 31 December 2016 (Note 2 and 3).

There have been no changes in the risk management policy since the end of last year.

5.2 Liquidity risk

Predicting cash flow takes place individually for each company and aggregate for the Group. The Group Management monitors forecasts of liquidity needs of the Group in order to ensure that it has sufficient cash to meet operational needs while maintains sufficient availability of credit facilities unused.

5.3 Estimation of fair value

For those financial instruments measured at fair value in the balance sheet the measurements are broken down by level, in accordance with the following hierarchy:

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

The following tables present the Group's assets and liabilities measured at fair value:

At 30 June 2017	**Level 1**	**Level 2**	**Level 3**	**Total balance**
Assets				
Financial assets at fair value	67,435	-	-	67,435
Hedging derivatives	-	35,995	-	35,995
Total assets	**67,435**	**35,995**	**-**	**103,430**
Liabilities				
Hedging derivatives	-	33,828	-	33,828
Total liabilities	**-**	**33,828**	**-**	**33,828**

At 31 December 2016	Level 1	Level 2	Level 3	Total balance
Assets				
Financial assets at fair value	64,169	-	-	64,169
Hedging derivatives	-	17,535	-	17,535
Total assets	**64,169**	**17,535**	**-**	**81,704**
Liabilities				
Hedging derivatives	-	151,475	-	151,475
Total liabilities	**-**	**151,475**	**-**	**151,475**

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

a) Level-1 financial instruments

The fair value of the financial instruments that are traded on active markets is based on listed market prices at the balance sheet date. A market is considered to be active when the quoted prices are readily and regularly available through a stock market, financial brokers, industry institution, a pricing service or a regulatory entity and those prices reflect current market transactions on an arm's length basis. The quoted market price used for the financial assets held by the Group is the current bid price. These instruments are included in level 1.

a) Level-2 financial instruments

The fair value of financial instruments that are not listed on an active market (e.g., OTC derivatives) is determined by using valuation techniques. The measurement techniques maximize the use of observable market information that is available and are based as little as possible on specific estimates made by the companies. If the significant inputs that are required to calculate the fair value of an instrument are observable, the instrument is included in level 2.

Specific financial instrument valuation techniques include:

- Listed market prices or prices established by financial intermediaries for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of estimated future cash flows, based on estimated yield curves.
- The present value of foreign currency futures is calculated using forward exchange rates at the balance sheet date and discounting the amount obtained.
- Other techniques, such discounted cash flow analysis, are used to analyze the fair value of all other financial instruments.

As regards financial instruments, credit risk must be included in fair value measurements, including both counterparty credit risk and the Group's own credit risk where necessary.

Due to the characteristics of the Group's portfolio, credit risk mainly affects the portfolio of financial derivatives designated as cash flow hedges, since they are carried at fair value.

These instruments are special in that their expected fund flows are not pre-determined and change based on the underlying financial variable, so that the calculation of the applicable credit risk, i.e. own or counterparty credit risk, is not intuitive but depends on market conditions at each moment and thus requires quantification using valuation models.

The derivatives contracted by the Group consist of currency futures and commodity futures.

Currency forward transactions consist of buying one currency against the sale of a different currency; the exchange rate is established at the contract date and delivery or settlement takes place in the future, as from the third business day following the contract date.

Listed commodity forward transactions consist of buying or selling a commodity at a future date; the exchange rate is established at the contract date and delivery or settlement takes place in the future, as from the third business day following the contract date.

The effect of credit risk on the measurement of currency and commodity futures will depend on the settlement of the future. If settlement favors the Group, a counterparty credit spread is applied to quantify the probability of default at maturity; if settlement is expected to be negative for the Group, its own credit risk is applied to the Group's final settlement. In order to determine whether the settlement of a future is favorable or adverse for the Group, a stochastic model must be employed to simulate the derivative's behavior in different scenarios by means of complex mathematical models, based on the volatility of the underlying variable, so as to apply the credit spread resulting from each simulation.

There have been no significant changes in the first half of 2017 and 2016 in economic circumstances or the business that affect the fair value of the Group's financial assets and liabilities.

There have been no reclassifications of financial assets or transfers between levels in the first half of 2017 or 2016.

6. Seasonality of operations

The Group's activities are not seasonal.

7. Segment information

The Group classifies its operating segments as follows:

- Oil and Gas
- Power
- Infrastructure and Industry

Although the Group’s core business is the rendering of engineering and construction services, the abovementioned segment reporting format is presented on the understanding that the attendant business risks and rewards and the specialisation required to complete the projects in these segments, among other differentiating factors, make this segment distinction necessary to provide optimal insight into the business structure. This segmentation additionally reflects the information reviewed by the Board of Directors.

The oil and gas segment focuses on EPC services relating to oil and chemicals processing and production operations, and activities relating to the entire natural gas production and extraction value chain, i.e. production, processing, storage and transport. Activities in the refining sector range from the construction of refineries to the revamping and expansion of existing refining plants. Units designed and built include basic refining plants, plant conversions and octane improvement projects. The Group designs and builds auxiliary services and other refining units. Petrochemical activities include the design and construction of plants that produce and process monomers, polymers and plastics, chemical plants and fertiliser units. As regards natural gas, the Group mainly designs and builds units used in the extraction and preliminary processing of natural gas, prior to its use in subsequent processes or preparation for export. The Group is highly specialised in regasification and gas transport facilities.

In the power industry, the Group performs consulting, engineering, supply and construction services for a range of electricity generating plants such as conventional thermal plants, combined cycle power plants, gasification integrated with combined cycle, nuclear plants, co-generators, solar, fuel cells, solid waste and biomass technology. The Group also supplies turnkey plants and, at times, performs plant operation and maintenance (O&M) services.

The infrastructure and industry segment executes project work in multiple arenas such as airports, industrial facilities, desalination and water treatment plants as well as initiatives for public authorities and other bodies such as management of car parks, public spaces and municipal sports centres.

The operating segment analysis is performed based on a valuation of the operating benefit adjusted by the unallocated structure costs. The Group manage jointly both the financing activities and the Income Tax effect, therefor finance expenses and incomes as well as Income Tax have not been allocated to the segments. Additionally, due to their not significant amounts, assets, amortization and impairments are not allocated.

Highlight, there have not been transactions among the different operating segments.

The breakdown of ordinary revenue and profits by business segment for the six month periods ended 30 June 2017 and 2016 is as follows:

	Six month period ended 30 June 2017				
	Oil and gas	**Energy**	**Infrastructure and Industries**	**Unallocated**	**Group**
Revenue	2,239,861	327,113	60,998		**2,627,972**
Operating profit	135,938	13,103	1,634	(46,065)	**104,610**
Net finance income	-	-	-	(9,132)	(9,132)
Share in profit (loss) of associates	-	-	-	(1,389)	(1,389)
Profit before taxes	**135,938**	**13,103**	**1,634**	**(56,586)**	**94,089**
Income tax	-	-	-	(27,286)	(27,286)
Profit for the period from continuing operations	**135,938**	**13,103**	**1,634**	**(83,872)**	**66,803**
Loss for the period from discontinued operations	**-**	**-**	**-**	**(167)**	**(167)**
Profit for the period	**135,938**	**13,103**	**1,634**	**(84,039)**	**66,636**

	Six month period ended 30 June 2016				
	Oil and gas	**Energy**	**Infrastructure and Industries**	**Unallocated**	**Group**
Revenue	2,033,317	197,040	73,582	-	**2,303,938**
Operating profit	129,315	11,481	(4,773)	(43,643)	**92,378**
Net finance income	-	-	-	571	571
Share in profit (loss) of associates	-	-	-	(3,306)	(3,306)
Profit before taxes	**129,315**	**11,481**	**(4,773)**	**(46,378)**	**89,643**
Income tax	-	-	-	(23,757)	(23,757)
Profit for the period	**129,315**	**11,481**	**(4,773)**	**(70,135)**	**65,886**

Revenues by geographic area for the six month period ended 30 June 2017 and 2016:

	Six month period ended 30 June	
	2017	**2016**
Spain	18,360	51,194
Middle East	1,668,655	787,636
America	324,998	620,913
Asia	129,123	316,640
Europe	310,316	189,662
Mediterranean	176,520	337,893
Total	**2,627,972**	**2,303,938**

Revenue generated in the Middle East geographic area relates mainly to projects performed in Saudi Arabia, Abu Dhabi, Kuwait and Oman; in the Americas area, it mainly includes projects in Canada, Peru, Dominican Republic and Mexico; in the Asia area, revenue includes operations in Malaysia and Bangladesh; European revenue derives mainly from Russia, Belgium, Norway, Poland, Finland and UK; and revenue in the Mediterranean area relates basically to Turkey and Algeria, among other nations.

During the first half of 2017 and 2016 there have been no changes in the allocations to assets and liabilities by segment compared with December 2016 and 2015, and relate mainly to the Oil and gas segment (Note 5 of the Consolidated Annual Accounts of Técnicas Reunidas, S.A. and subsidiaries at December 31, 2016).

8. Income tax expense

Income tax expense is recognised based on management's estimates of the average weighted tax rate for the complete financial year. The annual estimated average tax rate for the year at 31 December 2017 is 29% (the estimated tax rate for the six month period ended 30 June 2016 was 27.51%).

9. Property, plant and equipment, goodwill and other intangible assets

Movements in this item during the first six months of 2017 and 2016 are as follows:

	Thousand euros		
	Intangible assets		
	Goodwill	**Other intangible assets**	**Property, plant and equipment**
Cost			
Balances at 1 January 2017	**1,242**	**22,485**	**156,586**
Additions	-	990	4,069
Disposals and other removals	-	(111)	(8,548)
Balances at 30 June 2017	**1,242**	**23,364**	**152,107**
Accumulated amortisation/depreciation			
Balances at 1 January 2017	-	**16,940**	**93,716**
Disposals and other removals	-	(76)	(2,818)
Charges to income statement	-	1,022	11,500
Balances at 30 June 2017	**-**	**17,886**	**102,398**
Net assets			
Balances at 1 January 2017	**1,242**	**5,545**	**62,870**
Balances at 30 June 2017	**1,242**	**5,478**	**49,709**

	Intangible assets		Thousand euros
	Goodwill	Other intangible assets	Property, plant and equipment
Cost			
Balances at 1 January 2016	**1,242**	**84,253**	**145,146**
Additions	-	1,574	5,119
Disposals and other removals	-	(90)	(2,527)
Balances at 30 June 2016	**1,242**	**85,737**	**147,738**
Accumulated amortisation/depreciation			
Balances at 1 January 2016	-	**19,694**	**80,966**
Disposals and other removals	-	(90)	(2,527)
Charges to income statement	-	1,651	8,511
Balances at 30 June 2016	**-**	**21,255**	**86,950**
Net assets			
Balances at 1 January 2016	**1,242**	**64,559**	**64,180**
Balances at 30 June 2016	**1,242**	**64,482**	**60,788**

Other intangible assets in 2016 mainly records the concession assets operated by the Group which as of 30 June 2017 are classified as held for disposal.

At 30 June 2017 and 31 December 2016 the Group did not have any significant commitments to acquire assets.

During the first six months of 2017 and 2016 there have been no circumstances that indicate the possible existence of the impairment of goodwill.

10. Financial instruments

a) Financial assets

Financial assets (excluding Trade and other receivables and Cash and cash equivalents) at 30 June 2017 and 31 December 2016 are set out below by nature and measurement category:

				At 30 June 2017
Financial assets: Nature/Category	**Financial Assets at fair value**	**Non-current assets held for sale**	**Other financial assets**	**Hedging derivatives**
Equity instruments	-	1,016	-	-
Derivatives	-	-	-	6,334
Other financial assets	-	-	21,210	-
Long-term/non-current	**-**	**1,016**	**21,210**	**6,334**
Derivatives	-	-	-	29,661
Other financial assets	67,435	-	21,218	-
Short-term / current	**67,435**		**21,218**	**29,661**
Total financial assets at 06.30.2017	**67,435**	**1,016**	**42,428**	**35,995**

Financial assets:	Financial Assets at fair value	Non-current assets held for sale	Other financial assets	Hedging derivatives
				At 31 December 2016
Nature/Category				
Equity instruments	-	1,016	-	-
Derivatives	-	-	-	2,780
Other financial assets	-	-	20,789	-
Long-term/non-current	**-**	**1,016**	**20,789**	**2,780**
Derivatives	-	-	-	14,755
Other financial assets	64,169	-	16,677	-
Short-term / current	**64,169**		**16,677**	**14,755**
Total financial assets at 12.31.2016	**64,169**	**1,016**	**37,466**	**17,535**

The carrying amounts of financial instruments are deemed to approximate their fair value.

a.1) - Measurement adjustments for financial asset impairment

Movements during the first half of 2017 and 2016 in the balance of the asset impairment provisions making up the heading "Trade and other receivables ":

	Thousand euros	
	30 June 2017	**30 June 2016**
Beginning balance in the provision	13,983	13,504
Charges to income statement:	285	-
Applications	-	(4)
Ending balance in the provision	14,268	13,500

The rest of the financial assets have not become impaired during the first half of 2017 and 2016.

a.2) – Trade and other receivable accounts

Trade receivables includes €1,858,967 thousand (31 December 2016: €1,570,054 thousand) relating to completed work pending billing, measured on the basis of the accounting criteria set forth in Note 2.21 of the Consolidated Annual Accounts for the year ended December 31, 2016.

b) Financial liabilities

Financial liabilities (excluding Trade and other payables, long-term employee benefit obligations and borrowings related to assets classified as held for sale) at 30 June 2017 and 31 December 2016 are set out below by nature and measurement category:

	At 30 June 2017 (Thousand euros)	
Financial liabilities	**Borrowings and payables**	**Hedging derivatives**
Nature/Category		
Debts to credit institutions	13,685	-
Derivatives	-	2,482

Other financial liabilities	586	-
Non-current payables / Non-current financial liabilities	**14,271**	**2,482**
Debts to credit institutions	370,575	-
Derivatives	-	31,346
Other financial liabilities	39,836	-
Current payables / Current financial liabilities	**410,411**	**31,346**
Total financial liabilities at 06.30.2017	**424,682**	**33,828**

	At 31 December 2016 (Thousand euros)	
Financial liabilities	**Borrowings and payables**	**Hedging derivatives**
Nature/Category		
Debts to credit institutions	155,212	-
Derivatives	-	4,383
Other financial liabilities	451	-
Non-current payables / Non-current financial liabilities	**155,663**	**4,383**
Debts to credit institutions	84,923	-
Derivatives	-	147,092
Other financial liabilities	36,733	-
Current payables / Current financial liabilities	**121,656**	**147,092**
Total financial liabilities at 12.31.2016	**277,319**	**151,475**

The carrying amounts of financial instruments are deemed to approximate their fair value.

c) Financial hedging derivatives

Note 2.22 of the Notes to the Group's consolidated financial statements for the year ended 31 December 2016 indicates the criteria used by the Group for hedging activities. There have been no changes in the criteria during the first half of 2017.

The changes arising during the first half of 2017 under the heading Hedging derivatives (current and non-current) relate to changes in the valuation of the derivative financial instruments by the Group, acquisitions and settlements. There have been no changes in the measurement techniques in the estimate of the fair value of derivative financial instruments. These measurement techniques are those normally used in the market, and the procedure consists in calculating fair value, discounting the associated future cash flows based on the interest rates, exchange rates, volatility and forward price curves in force at the closing date in accordance with the reports prepared by financial experts.

During the first half of 2017 and 2016 there have been no inefficiencies due to foreign currency hedges.

d) Debts to credit institutions

The breakdown of borrowings at 30 June 2017 and 31 December 2016 is as follows:

	At 30 June 2017	**At 31 December 2016**
Non-current		
Debts to credit institutions	13,685	155,212
Current		
Debts to credit institutions	370,575	84,923
Total borrowings	**384,260**	**240,135**

Unused Credit lines amounts to €806,104 thousand as of 30 June 2017 (€619,998 thousand as of 31 December 2016).
<u>Credit line Covenants</u>

The credit line agreement signed in Madrid on 23rd December 2016 obliges the Group to comply with different financial ratios per semester. As of 30 June 2017, the Members of the Board of Directors have assessed the compliance with these covenants and considered the Company is compliant.

The breakdown is as follow:

	30 June 2017	31 December 2016
Fix rate – Due date > 1 year		
Variable rate		
Due date < 1 year	262,422	275,703
Due date > 1 year	543,762	344,295
	806,184	**619,998**

11. Assets and liabilities classified as held for sale and discontinued operations

The breakdown of assets and liabilities classified as held for sale and discontinued operations as of 30 June 2017 and 31 December 2016 is as follows:

	30 June 2017	31 December 2016
Intangible assets	67,060	67,060
Property, plant and equipment	557	672
Finance assets	221	221
	67,838	**67,953**
Impairment of the assets classified as held for sale and discontinued operations	(8,914)	(8,914)
Total	**58,924**	**59,039**

The liabilities related to the assets classified as held for sale and discontinued operations amount to €23,015 thousand and correspond to bank borrowing (2016: €24,474 thousand).

12. Equity

Share capital

At 30 June 2017 and at 31 December 2016 the number of authorised ordinary shares is 55,896,000, each with a par value of €0.10 per share. All issued shares are fully paidin and carry equal voting and dividend rights.

At June 30, 2017, the treasury shares represent 3.89% of the share capital of the Parent Company (3.83% at December 31, 2016) and totaling 2,173,824 shares (2,143,814 shares at December 31, 2016).

On 25 June 2014, the General Meeting of Shareholders of the parent company agreed to authorize the purchase of an amount of treasury stock not to exceed the legal limit for a minimum price of 75% of the listed value and a maximum of 120% of the listed value on the transaction date. The authorization is valid for 5 years from the date on which the motion was passed.

The parent company has signed a liquidity agreement with Santander Investment Bolsa, Sociedad de Valores, S.A.U., for the Spanish stock market, the purpose of which is to favor transaction liquidity. The contract was signed for a renewable termof one year. The number of shares in the account associated with the contract is 74,500 and a total of €2,537 thousand was deposited in the cash account associated with the contract.

All of the shares of Técnicas Reunidas, S.A. are listed on the four Spanish stock exchanges and on the continuous market since 21 June 2006 and form part of the Ibex35 benchmark index.

Dividends reported and paid by the parent company

The breakdown of the dividends reported and paid by the parent company during the first six months of 2017 and 2016 is as follows:

<u>- First half of 2017:</u>

- On 28 December 2016 the Board of Directors approved the payment of €35,852 thousand (€0.641 per share) as the dividend approved and charged against 2016 profits and paid out on 19 January 2017.

- On 29 June 2017, the General Shareholders' Meeting approved the pay-out of a dividend of € 75,000 thousand. On 10 July 2017, a supplementary dividend of € 39,148 thousand (€ 0.70 per share) was paid out, in addition to the interim dividend approved by the Board of Directors on 28 December 2016.

<u>- First half of 2016:</u>

- On 18 December 2015 the Board of Directors approved the payment of €35,830 thousand (€0.667 per share) as the dividend approved and charged against 2015 profits and paid out on 12 January 2016.

- On 29 June 2016, the General Shareholders' Meeting approved the pay-out of a dividend of € 75,000 thousand. On 14 July 2016, a supplementary dividend of € 39,170 thousand (€ 0.729 per share) was paid out, in addition to the interim dividend approved by the Board of Directors on 18 December 2015.

The dividends paid by the parent company during the six month period ended 30 June 2017 and 30 June 2016:

	First half of 2017			**First half of 2016**		
	% par value	**Euro per share**	**Amount (Thousand euros)**	**% par value**	**Euro per share**	**Amount (Thousand euros)**
Ordinary shares	641	0.641	35,852	667	0.667	35,830
Total dividends paid						
Dividends charged to profits	641	0.641	35,852	667	0.667	35,830

Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the equity holders of the parent by the weighted average number of ordinary shares for the period. The breakdown of these items in the six month periods ended 30 June 2017 and 2016 is as follows:

	At 30 June 2017	**At 30 June 2016**

Profit for the period attributable to owners of the parent	57,100	65,705
Weighted average number of ordinary shares in issue (thousand)	53,739	53,716
Earnings per share (euro)	1.06	1.22

The Company did not record any issues of financial instruments that may dilute earnings per share.

13. Other provisions

Note 24 of the Notes to the Group's consolidated financial statements for the year ended 31 December 2016 indicates the criteria used by the Group to establish these provisions. There have been no changes in the criteria during the first half of 2017. Movements during the six month periods ended 30 June 2017 and 2017 under the heading Non-current provisions are shown below:

	Six month period ended at 30 June 2017			
ITEM	**Provision for estimated project losses**	**Provision for project completion**	**Other provisions**	**Total provisions for liabilities and charges**
Balance at 01.01.2017	**2,484**	**16,642**	**15,850**	**34,976**
Reversals / Amounts used	-	(210)	-	(210)
Amounts provisioned	2,016	-	31,150	33,166
Balance at 06.30.2017	**4,500**	**16,432**	**47,000**	**67,932**

	Six month period ended at 30 June 2016			
ITEM	**Provision for estimated project losses**	**Provision for project completion**	**Other provisions**	**Total provisions for liabilities and charges**
Balance at 01.01.2016	**2,185**	**18,032**	**11,000**	**31,217**
Reversals / Amounts used	-	-	-	-
Amounts provisioned	-	-	2,543	2,543
Balance at 06.30.2016	**2,185**	**18,032**	**13,543**	**33,760**

Construction contract losses

The Group, compliant with IAS 11, books accruals to cover estimated future losses regarding ongoing projects.

Infrastructure accruals

For those projects which are finalized, the Group has assessed an estimation of those costs-related to them which are probable to incur in the future..

Other accruals

Correspond to accruals registered to cover other risks and expenses, including payment commitments to project partners, probable risks, and accruals for other payments to issue in the long term.

At June 2017, 30, “Other Provisions”, includes an accrual amounting to €27,000 thousand related to the dispute in the project “Sines” in Portugal described in the Note 33 of the Consolidated Annual Accounts of Técnicas Reunidas, S.A. and Subsidiaries for the Year Ended 31 December 2016.

The remaining amount of this caption corresponds to the accrual frame in the projects closing process with clients and suppliers.

During the first semester of 2017 and 2016 there have not been significant variations to the current risk and expenses accrual.

The accrual movement for the period reflects the net amount of the variation in the caption other expenses in the consolidated profit and loss statement.

14. Related-party transactions

Related-party transactions arising during the Group's normal course of business during the first six months of 2017 and 2016 are as follows:

- Transactions with the Company’s shareholders

During the first six months of 2017 no transactions were carried out with Company shareholders.

At 18 May 2016, Técnicas Reunidas, S.A. sold to the owner of 5.096% capital of the parent Company of the Group (Aragonesas Promoción de Obras y Construcciones, S.L.U.), its investment in Sociedad Layar Castilla, S.A. for an amount of €4,085 thousand. This operation generated a profit posted in the Condensed Interim Consolidated Income Statement of €2,862 thousand.

- Transactions carried out with Group Directors

During the first six months of 2017 and 2016, transactions were carried out with Group Directors amounting to €152 and €162 thousand, respectively.

Information relating to the compensation and other benefits for the Parent Company's Board of Directors is included in Note 15.

- Transactions carried out with related companies

Part not eliminated in the consolidation process of the transactions with Group companies.

	1st semester 2017	1er semester 2016
Received Services	3,527	4,248
Rendered Services	5,932	8,522

15. Board of Directors and Senior Management remuneration

a) Board of Directors' compensation

The breakdown of the compensation received by the members of the Parent Company's Board of Directors in the six month periods ended 30 June 2017 and 2016 is as follows:

	Thousand euros	
	30 June 2017	**30 June 2016**
Compensation		
Fixed compensation	707	707
Variable compensation	1,100	787
Per diems	790	628
Other Services	152	162
Total:	**2,749**	**2,284**
Other benefits		
Life insurance premiums	17	21
Total other benefits:	**17**	**21**

Additionally, the Group has paid €110 thousand annually in 2017 and 2016 regarding civil liability insurance for the members of the board.

b) Executive compensation

Remuneration paid to senior management personnel during the six-month period ended 30 June 2017 totaled €3,116 thousand (€ 4,008 thousand at 30 June 2016).

Advances: No advances were granted to senior management during the first six months of 2017 and 2016.

16. Average number of employees

The Group's average payroll for the first six months of 2017 and 2016, broken down by category and gender, is as follows:

	Average payroll for the six month period ended 30 June					
	2016			**2015**		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Directors and senior executives	12	2	14	13	2	15
Engineers and university graduates	5,691	2,949	8,640	6,035	3,130	9,165
Unskilled assistants	31	1	32	33	1	34
Other categories	29	16	45	29	16	45
TOTAL	**5,763**	**2,968**	**8,731**	**6,110**	**3,149**	**9,259**

The subcontracted personnel as of 30 June 2017 was 738 employees (2016: 1,026 employees).

The average personnel during the period ended at 30 June 2017 and 2016 of the entities of the Group with a disability equal or above 33% comes to 18 and 21 respectively.

17. Other information

<u>Contingencies and guarantees provided</u>

Note 33 of the notes to the consolidated financial statements for the year ended 31 December 2016 provides information regarding contingencies and guarantees provided at that date.

At 30 June 2017, the Group has provided guarantees to third parties totalling €4,127,091 thousand (31 December 2016: €4,325,000 thousand). Group management considers that the provisions recorded in these financial statements at 30 June 2017 reasonably cover the risks relating to litigation, arbitration and claims, without any additional liabilities expected to arise.

Regarding the tax audits detailed in the Note 30 of the Consolidated Annual Accounts of Técnicas Reunidas, S.A. and Subsidiaries at December 31, 2016, the Group has provided guarantees amounting to €136,2 million as income tax and €28,6 million as delay interest.

Additionally, at July, 3rd 2017 the Group has received communication from Tax Authorities for the commencement of the inspection related to the Income Tax (2012-2014), VAT (2014-2015) and other taxes (2014-2015), of the Tax Consolidated Group of the Parent Company.

The Group is involved in certain arbitration and legal disputes with clients and suppliers regarding project closing process. According to the Group's legal advisors opinion, based on the available information, the Group considers that the resolution of these will not influence significantly the Group's financial situation.

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18. Events after the end of the reporting period

Between the closing date of the six month period ended 30 June 2016 and the date these Condensed Interim Consolidated Financial Statements were approved, no significant event took place.

19. Explanation added for translation to English

These Condensed Interim Consolidated Financial Statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2). Certain accounting practices applied by the Group that conform with that regulatory financial reporting framework may not conform with other generally accepted accounting principles and rules.

INTERIM CONSOLIDATED DIRECTORS' REPORT
FIRST HALF FY 2017

Business performance

1.1 Business performance in the first half of 2017

Técnicas Reunidas, TR, made an operating profit in the first half of 2017 amounting to €105 million, 13% up on the figure achieved in the first half of 2016. In the first half of 2017, revenue amounted to €2,628 million, a 14% improvement on the same period in 2016, driven by the contribution of major projects awarded in previous years.

Of total income, 85.23% derived from the Oil and Gas business, which continues to be the largest contributor to the Group's revenue, mainly supported by refining projects; 12.45% derived from energy generation projects and 2.32% from the Infrastructure and Industries area.

Two significant projects were obtained in the first half of 2017. One of them, the Project for Auxiliary Units at the Talara refinery in Peru, which was included in our portfolio on an open book basis, will be put out to tender in the coming months for which reason it has been removed from our portfolio. The second project, in Mexico, relates to the energy area.

1.2 Performance by business area in the first half of 2017

Oil and gas

Project implementation

During the first six months of 2017 the projects in which the greatest progress was achieved were in the downstream area: the Al Zour refinery for KNPC in Kuwait, the Talara refinery for Petroperu in Peru, the STAR refinery for SOCAR in Turkey and the RAPID refinery for Petronas in Malaysia.; while in the upstream and gas area, they were: the Fadhili project for Saudi Aramco in Arabia, the IGCC project for Saudi Aramco in Arabia, the GT5 project for KNPC in Kuwait, the Gasco project in UAE and the Hail project for ADOC in UAE.

Energy, infrastructures and industries

Sales in the energy, infrastructures and industries area amounted to €389 million during the first half of 2017. This amount represents an increase of 43.4% over the same period in the previous year as a result of the contribution of the projects awarded in the last two years.

The main project obtained in this division during this period was the following:

Tierra Mojada Project in Mexico

In June Fisterra Energy, a Blackstone group company specialising in the development of energy infrastructures, selected Técnicas Reunidas for the design, supply, construction and start-up of a new 875 MW combined cycle plant in Guadalajara, Mexico.

The project involves the installation of two GE 7HA.02 gas turbines, two recovery boilers and one steam turbine, with a total capacity of 875 MW. The scope also includes all the plant's auxiliary systems, with two substations to connect the plant to the grid. The plant will run on natural gas, in compliance with the latest emissions standards. The project keeps TR at the forefront in technology, by providing electricity generation plants using gas turbines with the highest efficiency in the market.

The total value of the contract is close to USD 500 million and the duration of plant construction is estimated at 30 months.

This new award for TR in Mexico confirms TR's commitment to Latin America. TR has provided support services to Fisterra Energy since the start of the project. Supporting our customers in the early stages of project development contributes to the success of their structuring and execution.

Fisterra Energy is a company specialising in energy infrastructure investment, focused mainly on Europe, Latin America and the Middle East. It is 100% owned by Blackstone, the world's largest private equity fund, with over USD 360,000 million under management, which also provides it with financial support for its business. Blackstone's energy division invests in practically all sectors of the energy industry, having carried out close to 25 transactions worth USD 8,100 million in its affiliates' stock.

Project implementation

In the first half of 2017, the projects that showed the greatest progress were: the Kilpilahti electricity generation plant for Neste, Veolia and Borealis in Finland and the biomass plant for MGT Teeside in the United Kingdom.

2. Principal risks and uncertainties in the second half of 2017

The lengthy period of low oil prices in the sector since the second half of 2014, with a longer-than-expected duration, significantly affects our business activity. In November 2016 OPEC decided to reduce output, which generated a moderate recovery in crude prices during the first five months of 2017. However, since June the situation has reversed and although in May OPEC announced that the output reduction would be maintained until March 2018, the Brent price has again fluctuated downwards. The production of shale oil in the US and the development of Iran's investment plans, following the lifting of sanctions, have undermined the effectiveness and impact of the OPEC decisions with regard to market prices. These circumstances are sources of uncertainty, followed closely by the market.

This low oil price scenario affects liquidity among our customers, whose businesses generate lower cash flows, influencing their budgets. This leads them to prioritise their investments, not only in their upstream activities, but also downstream. This also causes delays in the processes for awarding projects, as more time is spent on the selection of investments and because potential cost adjustments are required in proposals. Finally, this lower liquidity is passed on to contractors, with a detrimental impact on the sequence of payments.

Geopolitical factors affecting countries linked to the energy sector may also affect Group performance, such as Russian sanctions in 2015 or the recent tension between Middle East countries and Qatar. Qatar is one of the main gas-producing countries, rich in reserves, and has ambitious investment plans to develop its petrochemical industry. Although it is not one of the main markets of Técnicas Reunidas at present, it could be a potential future market and this situation could delay its investment plans or affect relations with other customers and suppliers in the area. Latin America is also slowing down investment decisions in order to seek greater transparency in public tendering.

In addition, TR's activity is subject to various risks specific to the sector, such as the volatility of the foreign exchange market, the volatility of raw materials prices which affects prices of equipment and supplies, its suppliers´ capacity to service orders, the emergence of new competitors, and the availability of engineering, construction and assembly resources.

For these reasons, Técnicas Reunidas carries out committed risk management throughout project implementation, for both projects that are starting now and projects that will be completed this year or are still under guarantee.

3. Alternative Performance Measures

Following the guidelines of the European Securities and Markets Authority (ESMA) on Alternative Performance Measures (APMs), Group Management believes that certain APMs provide useful additional financial information that should be considered when assessing performance.

In addition, Management uses these APMs when taking financial, operational and planning decisions, as well as in the assessment of Group performance. In this respect, Management presents the following APMs that it considers useful and appropriate for decision making by investors and which provide the greater reliability with respect to the Group's performance.

Operating profit (net operating margin)

· Definition and reconciliation: The definition and reconciliation are reflected in the condensed interim consolidated income statement.

· Explanation of use and consistency: Net operating margin is used as a financial indicator that determines the overall profitability of projects and is used to assess the Group's capacity to generate added value in projects. Additionally, from an investor viewpoint, this indicator is the one mainly used for the valuation of companies in the sector.

Group management confirms that there has been no change in criteria as concerns the definition, reconciliation or use of this indicator with respect to that used in the previous year.

Net cash position

· Definition and reconciliation: The net cash position is defined as the net result of cash and cash equivalents and short- and long-term financial debt. The reconciliation of this figure is reflected in the assets and liabilities in the condensed interim consolidated balance sheet at 30 June 2017.

· Explanation of use and consistency: This financial indicator is used by the Group to measure the Company's cash level/leverage at a given time.

Group management confirms that there has been no change in criteria as concerns the definition, reconciliation or use of this indicator with respect to that used in the previous year.