This version of the independent auditors' report on the annual accounts 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 independent auditors' report on the annual accounts takes precedence over this translation.

Independent auditors' report on the annual accounts

To the shareholders of Técnicas Reunidas, S.A.

Report on the annual accounts

Opinion

We have audited the annual accounts of Técnicas Reunidas, S.A. (the Company), which comprise the balance sheet at 31 December 2017, the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2017, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 2 of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the annual accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

Key Audit Matters

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

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R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Deloitte, S.L. inscrita en el Registro Mercantil de Madrid, tomo 13.650. sección 8ª, folio 188, hoja M-54414, inscripción 96ª, C.I.F.: B-79104469.
Tel.: +34 915 14 50 00, Fax: +34 915 14 51 80, www.deloitte.es
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020 Madrid

Key Audit Matters	How our audit addressed the key audit matter
Recognition of revenue from construction contracts	
The revenue recognition criteria applied by the Company are based on the percentage completion method in accordance with the legislation applicable in Spain for Construction Contracts. When applying the percentage of completion method the Company applies significant estimates using relevant judgments regarding the total costs that are necessary to execute the contract, and regarding the amount of any claims or scope changes of the project that may be included as more revenue from the contract. The Company has implemented processes and controls to adequately recognize and oversee long-term contracts from the bidding phase, during execution and until the project is closed. These processes include, among other things: organization of the project, documentation, risk management, financial reviews and reporting, as well as controls over the adequate application of accounting principles. The information regarding construction contracts is set out in Notes 3.15, 10 and 25 a) to the annual accounts. Given the relevance of the estimates used when recognizing revenue and their quantitative importance, this has been considered to be a key audit matter within our audit.	During our audit work we have taken into consideration our understanding of the controls over the process of estimating the margin obtained on long-term contracts. Our procedures include, among other things, the performance of tests of the design, implementation and operating effectiveness of certain relevant controls that mitigate the risks associated with the process of recognizing revenue from these types of construction contracts. To perform substantive tests we first selected a sample by applying quantitative and qualitative criteria, such as the identification of those relevant contracts either due to the total selling price of the contract or the amount of the revenue or margins recognized during the year, or the risk associated with the costs yet to be incurred to complete the contract. Additionally, we performed a selection based on statistical criteria for all of the remaining projects. We obtained the contracts relating to the selected projects so that we could read them and understand the most relevant clauses and their implications, as well as the budgets and execution oversight reports for those projects, and we performed the following procedures focusing on their main aspects: • We analysed the evolution of margins compared to changes in both the selling price and total budgeted costs. • We evaluated the coherence of the estimates made by the Company last year by comparing them against the actual data deriving from contracts in progress this year. • We recalculated the percentage of completion of each stage of the selected projects and compared it against the results obtained from the Company's calculations. • We obtained evidence of technical approvals regarding changes to the contract and claims made in negotiations with customers, as well as the status of financial negotiations.

Key Audit Matters	How our audit addressed the key audit matter
	• We obtain explanations regarding the reconciliation between the financial information and the follow-up reports for the projects provided by project management. Finally, we have verified that the information disclosures included in Notes 3.15, 10 and 25 a) to the accompanying annual accounts regarding the recognition of revenue from contracts based on the percentage of completion method are adequate in terms of those required by applicable accounting legislation. The results of the procedures performed allowed us to reasonably obtain the audit objectives for which these procedures were designed.
Tax inspection action Over the past few years the Spanish tax group that the Company is part of underwent an inspection regarding corporate income tax for the years 2008 through 2011. After the tax inspection action was completed in 2015 the Company received a proposed settlement totalling €136.2 million, plus interest due to discrepancies in transfer pricing. The Company contested the assessment and appealed the decision through administrative processes and provided the necessary financial guarantees. The Company has implemented processes and controls to assess the risks and probability that a potential liability must be recognized in the annual accounts. It considers that there are legal arguments that support its position and therefore no provision has been recognised in this respect. The information relating to the inspection action taken by the tax authorities is set out in Note 24 to the annual accounts.	During the course of the audit we gained an understanding of the processes and evaluated the estimates used by management. To do so we obtained confirmation letters from attorneys to compare the assessment of the expected outcome, all related information and we identified potential liabilities and compared them against the Company's estimates. To analyse the reasonableness of the Company's estimate, we have involved internal tax specialists and, as part of our substantive work, we held interviews with the Company's attorneys regarding the actions taken by the tax authorities to date. We have analysed the probability of success that the Company's challenge of the conclusions reached by the tax authorities will have, which corroborate the estimate made by the Company and the information regarding this matter set out in the annual accounts is adequate in the terms of applicable accounting legislation. The results of the procedures performed allowed us to reasonably obtain the audit objectives for which these procedures were designed.

Key Audit Matters	How our audit addressed the key audit matter
Given the relevance of the estimates used regarding the probability that the risk will materialize and the amount claimed by the tax authorities in the assessments raised, we have considered this to be a key audit matter.	
Deferred tax assets The balance sheet at 31 December 2017 includes a balance of €69,267 thousand in deferred tax assets that mainly relate to temporary differences due to losses incurred in foreign businesses that will be recoverable within the context of the Spanish tax group led by the Company when the companies engaging in those businesses are liquidated. At the end of the year Company management prepares revenue and profitability projections per project to assess the capacity of recovering deferred tax assets taking into consideration legislative changes and updates in the profitability of the various projects. We identified this matter as a key audit matter since the preparation of these projections requires a high level of judgment, basically with respect to the evolution of the project projections that affect the estimate made regarding the recovery of the deferred tax assets. The information relating to the deferred tax assets is disclosed in Note 24 to the annual accounts.	We have obtained an understanding and analysed the estimation process applied by directors and by management, focusing our procedures on matters such as: • The process of preparing the business plan, which is substantially supported on projects in progress, projects in the portfolio and estimates regarding new project intake based on past information, prepared with the objective of evaluating the recognition, measurement and the capacity to recover the deferred tax assets. • The criteria used when calculating the deferred tax assets. • The base information used by management in its analysis regarding the recovery of deferred tax assets, verifying its congruence with the estimates regarding projects used in other areas of the audit such as revenue recognition or the assessment of the application of the going-concern principle. We have involved our internal tax experts when considering the reasonableness of the tax assumptions used based on applicable legislation, to ensure that they are complete and adequate. Finally, we have verified that Note 24 to the accompanying annual accounts contains the appropriate disclosures in this respect. The results of the procedures performed allowed us to reasonably obtain the audit objectives for which these procedures were designed.

Other information: Directors' report

Other information comprises only the directors' report for the 2017 financial year, the formulation of which is the responsibility of the Company's directors and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the director's report. Our responsibility regarding the information contained in the directors' report is defined in accordance with legislation governing the audit practice, which establishes two different levels in this respect:

a) A specific level that is applicable to the statement of non-financial information, as well as to certain information included in the Annual Corporate Governance Report as defined by Article 35.2.b) of Law 22/2015, on Audits, which consists of only verifying that the information has been provided in the directors' report, or it has been included by reference to the separate report on non-financial information in the manner established by legislation, which must be reported by us if this is not the case.

b) A general level applicable to the rest of the information included in the directors' report, which consists of evaluating and reporting on the consistency of that information with that presented in the annual accounts based on the knowledge gained of the Company during the performance of the audit, without including information other than that obtained as evidence during the audit, as well as an assessment and report on whether the content and presentation of that part of the directors' report are in line with applicable legislation. If, based on our work, we conclude that there are material misstatements, we are required to report that fact.

On the basis of the work performed, as described above, we verify that the information mentioned in the preceding paragraph a) is included in the directors' report and that the rest of the information contained in the directors' report is consistent with that of the annual accounts for 2017 and its content and presentation are in accordance with applicable regulations.

Responsibility of the directors and the audit and control committee for the annual accounts

The Company´s directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of the Company, in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

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

The Company´s audit and control committee is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

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

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

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company´s directors.

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

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

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

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

From the matters communicated with the Company´s audit and control committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

Additional report for the Company's audit and control committee

The opinion expressed in this report is consistent with the statements made in our additional report for the Company's audit and control committee dated 27 February 2018.

Contract term

The General Shareholders Meeting held on 29 June 2017 appointed PricewaterhouseCoopers Auditores, S.L. as the Company's co-auditor for one year for the year ended 31 December 2017 and Deloitte, S.L. as the Company's co-auditor for three years starting the year ended 31 December 2017.

PricewaterhouseCoopers Auditores, S.L. had been previously designated for an initial period by a resolution adopted by the General Shareholders Meeting and has performed audit work without interruption since the year ended 31 December 1989.

Services rendered

Services other than audit rendered to the Company are those described in Note 33 to the accompanying annual accounts.

PricewaterhouseCoopers Auditores, S.L.

Registered with R.O.A.C. No. S0242

Original signed in Spanish by
Goretty Álvarez
Registered with R.O.A.C. No. 20,208

27 February 2018

Deloitte, S.L.

Registered with R.O.A.C. No. S0692

Original signed in Spanish by
F. Javier Peris Álvarez
Registered with R.O.A.C. No. 13,355

27 February 2018

This version of the annual accounts 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.

Annual accounts for the year ended December 31, 2017
and 2017 Director's Report

Contents of the annual accounts of Técnicas Reunidas, S.A.

TÉCNICAS REUNIDAS, S.A.

BALANCE SHEET AT 31 DECEMBER 2017
(Figures in Euro thousand)

ASSETS	Note	As of December 31 2017	2016
NON CURRENT ASSETS		**277,771**	**225,452**
Intangible assets	5	3,979	4,553
Property, Plant and equipment	6	33,256	46,709
Equity investments in group companies and associates – long term	8	153,282	87,909
Financial assets	7	17,987	22,740
Equity holdings		890	890
Loans to third parties		1,190	1,298
Derivatives	7-11	305	2,780
Other financial assets		15,602	17,772
Deferred tax assets	24	69,267	63,541
CURRENT ASSETS		**3,111,358**	**3,181,414**
Non-current assets held for sale	12	52,342	59,039
Inventories	13	11,945	11,868
Advances to suppliers	14	142,435	272,939
Trade and other receivable	7-10	1,905,646	1,720,149
Investments in group companies and associates – short term	8	593,837	592,682
Financial assets		74,186	58,719
Financial assets at fair value	7-9	43,976	41,311
Loans to third parties		94	94
Derivatives	7-11	28,244	13,749
Other financial assets		1,872	3,565
Cash and cash equivalents	15	330,967	466,018
TOTAL ASSETS		**3,389,129**	**3,406,866**

Notes 1 to 33 and Exhibit I are an integral part of these annual accounts.

TÉCNICAS REUNIDAS, S.A.

BALANCE SHEET AT 31 DECEMBER 2017
(Figures in Euro thousand)

EQUITY AND LIABILITIES	Note	As of December 31, 2017	2016
EQUITY		**522,134**	**384,318**
Capital and reserves		**516,265**	**408,746**
Capital	16	5,590	5,590
Registered capital		5,590	5,590
Share premium	16	8,691	8,691
Reserves	17	423,544	344,199
Legal reserves		1,137	1,137
Capitalization reserves		3,056	3,056
Other reserves		419,351	340,006
(Treasury shares and equity holdings)	16	(73,041)	(72,623)
Profit for the year	18	187,333	158,741
(Interim dividend)	18	(35,852)	(35,852)
Adjustments for changes in value		**5,869**	**(24,428)**
Hedging transactions	11	16,739	(19,125)
Translation differences	19	(10,870)	(5,303)
NON-CURRENT LIABILITIES		**187,560**	**259,784**
Long-Term Provisions		76,060	93,428
Other provisions	20	76,060	93,428
Long-Term Debt	21	94,744	159,094
Debt to credit institutions		88,136	151,040
Derivatives	11	2,489	3,843
Other financial liabilities		4,119	4,211
Deferred tax liabilities	24	16,756	7,262
CURRENT LIABILITIES		**2,679,435**	**2,762,764**
Liabilities related to non-current assets held for sale	12	21,546	24,474
Short-Term Provisions	20	941	898
Current borrowings	21	343,194	173,654
Debt to credit institutions		288,295	64,837
Derivatives		18,633	72,823
Other financial liabilities		36,266	35,994
Borrowings from related parties	22	357,597	98,143
Trade and other payables	23	1,956,157	2,465,595
TOTAL EQUITY AND LIABILITIES		**3,389,129**	**3,406,866**

Notes 1 to 33 and Exhibit I are an integral part of these annual accounts.

TÉCNICAS REUNIDAS, S.A.
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017
(Figures in Euro thousand)

		Year ended December 31,	
	Note	**2017**	**2016**
CONTINUING OPERATIONS			
Revenue	25	2,742,392	2,977,104
Sales and services rendered		2,742,392	2,977,104
Changes in inventory of finished goods and work in progress		78	(3,478)
Supplies		(1,860,908)	(1,853,253)
Consumption of goods		(1,860,908)	(1,853,253)
Other operating income		949	1,712
Non-trading and other operating income		191	233
Operating grants taken to income		758	1,479
Employee expenses	25.c	(294,572)	(296,010)
Wages and salaries		(243,437)	(244,431)
Staff wellfare expenses		(49,951)	(52,563)
Provisions		(1,184)	984
Other operating expenses	25.d	(387,065)	(671,396)
External services		(395,537)	(663,057)
Taxes other than income tax		(4,735)	(3,086)
Losses on impairment of and change in provisions for trade receivables		15,410	(4,191)
Other operating expenses		(2,203)	(1,062)
Amortization and depreciation	5 & 6	(13,458)	(13,187)
Gains (losses) on disposal of non-current assets		(1,224)	(327)
OPERATING PROFIT (LOSS)		**186,192**	**141,164**
Finance income		87,567	76,376
Finance cost		(9,182)	(4,841)
Change in fair value of financial instruments		2,665	836
Net exchange differences		(32,563)	14,422
Gains (losses) on disposal of financial instruments		(7,963)	(13,024)
NET FINANCE INCOME	26	**40,524**	**73,769**
PROFIT BEFORE INCOME TAX		**226,716**	**214,935**
Income tax	24	(34,334)	(45,181)
PROFIT FROM CONTINUING OPERATIONS		**192,382**	**169,753**
Loss from discontinued operations, net of income tax		(5,049)	(11,014)
PROFIT FOR THE YEAR		**187,333**	**158,741**

Notes 1 to 33 and Exhibit I are an integral part of these annual accounts.

TÉCNICAS REUNIDAS, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED DECEMBER 31, 2017
(Figures in Euro thousand)

		Year ended December 31	
	Note	**2017**	**2016**
Profit for the year as per income statement		**187,333**	**158,741**
Income and expense recognized directly in equity			
On cash flow hedges	11	103,495	(29,676)
On actuarial gains and losses and other adjustments	19	(5,567)	6,158
Tax effect	24	(25,602)	6,826
Total income and expense recognised directly in equity		**72,326**	**(16,692)**
Amounts transferred to income statement			
On cash flow hedges	11	(56,039)	42,562
Tax effect	24	14,010	(8,507)
Total amounts transferred to income statement		**(42,029)**	**34,055**
TOTAL RECOGNISED INCOME AND EXPENSE		**217,630**	**176,104**

Notes 1 to 33 and Exhibit I are an integral part of these annual accounts.

TÉCNICAS REUNIDAS, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

B) TOTAL STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017
(Figures in Euro thousand)

	Share capital	Share Premium	Reserves	Own shares and equity holdings	Prior periods´ profit and loss	Profit for the year	(Interim dividend)	Valuation adjustments	Grants, donations and bequests received	TOTAL
BALANCE AT 1 JANUARY 2016	**5,590**	**8,691**	**279,126**	**(74,150)**	**-**	**154,537**	**(35,830)**	**(41,791)**	**534**	**296,707**
Total recognised income and expense	-	-	-	-	-	158,741	-	17,363	-	176,104
Transactions with equity holders or owners:										
- Distribution of dividends	-	-	-	-	(39,170)	-	(35,852)	-	-	(75,022)
- Other transactions with equity holders or owners.	-	-	(171)	1,527	-	-		-	-	1,356
Other changes in equity										-
- Distribution of income	-	-	79,537	-	39,170	(154,537)	35,830	-	-	-
- Other changes	-	-	(14,293)	-	-	-	-	-	(534)	(14,827)
BALANCE AT 31 DECEMBER 2016	**5,590**	**8,691**	**344,199**	**(72,623)**	**-**	**158,741**	**(35,852)**	**(24,428)**	**-**	**384,318**
BALANCE AT 1 JANUARY 2017	**5,590**	**8,691**	**344,199**	**(72,623)**	**-**	**158,741**	**(35,852)**	**(24,428)**	**-**	**384,318**
Total recognized income and expense	-	-	-	-	-	187,333	-	30,297	-	217,630
Transactions with equity holders or owners:										
- Distribution of dividends	-	-	-	-	(39,170)	-	(35,830)	-	-	(75,000)
- Other transactions with equity holders or owners	-	-	(744)	(418)	-	-	-	-	-	(1,162)
Other changes in equity										
- Distribution of income	-	-	83,741	-	39,170	(158,741)	35,830	-	-	-
- Other changes	-	-	(3,652)	-	-	-	-	-	-	(3,652)
BALANCE AT 31 DECEMBER 2017	**5,590**	**8,691**	**423,544**	**(73,041)**	**-**	**187,333**	**(35,852)**	**5,869**	**-**	**522,134**

Notes 1 to 33 and Exhibit I are an integral part of these annual accounts

TÉCNICAS REUNIDAS, S.A.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017
(Figures in Euro thousand)

	Note	Year ended December 31, 2017	2016
Cash flows from operating activities			
1. Profit for the year before income tax without discontinued operations		**221,667**	**203,922**
2. Adjustments to profit from the year			
- Depreciation and amortization for PPE and intangible assets	**5 & 6**	13,458	14,282
- Change in provisions	**20**	(16,465)	21,124
- Impairment losses	**8 & 12**	10,204	11,496
- Gains (losses) on PPE disposals/derecognitions		1,224	-
- Finance income	**26**	(87,567)	(73,376)
- Finance cost	**26**	9,182	4,841
- Change in gains/losses on derivatives and translation differences		(56,039)	42,345
- Change in fair value of financial instruments	**9**	(2,665)	(928)
- Other income / (cost)		7,547	(3,656)
3. Changes in working capital:			
- Inventories and advances to suppliers	**13 & 14**	35,533	21,145
- Trade and other receivables		(177,988)	66,322
- Other accounts receivable		1,392	3,577
- Trade payables		(440,200)	(42,199)
- Other changes		36,029	(31,064)
4. Other cash flows from operating activities			
- Interest paid		(9,182)	(4,841)
- Dividends received		69,621	61,458
- Interest received		17,946	14,918
- Income tax paid		(31,363)	(76,544)
-Other amounts collected and paid		-	-
5. Net cash flows from (used in) operating activities		**(397,666)**	**229,822**
Cash flows from investing activities			
6. Payment on investments			
- Purchases of property, plant and equipment	**5**	(8,663)	(12,650)
- Purchases of intangible assets	**6**	(953)	(962)
- Investment in group companies and associates		(69,285)	(114,401)
- Other financial assets		1,906	7,092
7. Proceeds from disposals			
- Other financial assets		-	-
8. Net cash flows from investing activities		**(76,995)**	**(120,921)**
Cash flows from financing activities			
9. Proceedss and payments for equity instruments			
- Acquisition of own equity instruments		(1,162)	1,527
10. Proceeds from and repayments of financial liabilities			
a) Issuance of:			
- Borrowings from financial entities		548,136	182,099
- Borrowings from related parties		392,892	46,926
b) Repayment of:			
- Bank loans		(390,510)	(113,091)
- Borrowings from related parties		(134,746)	-
11. Dividends paid and payments on other equity instruments.			
- Dividends paid		(75,000)	(75,022)
12. Net cash flows from financing activities		**339,610**	**42,439**
Net increase/(decrease) in cash and cash equivalents		**(135,051)**	**151,340**
Cash and cash equivalents at beginning of the year		**466,018**	**314,678**
Cash and cash equivalents at end of the year		**330,967**	**466,018**

Notes 1 to 33 and Exhibit I are an integral part of these annual accounts

TÉCNICAS REUNIDAS, S.A.

NOTES TO THE ANNUAL ACCOUNTS
(Figures in Euro thousand)

1. Company information

Técnicas Reunidas, S.A. (hereinafter, the Company) 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 197, page M-72319, entry 157.

The registered offices of Técnicas Reunidas, S.A. are located at Calle Arapiles, 14, Madrid (Spain). It is headquartered in Madrid, at calle Arapiles, 13.

The Company's corporate purpose, according to article 4 of its Articles of Association, 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 and 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 Company operates through a number of business lines, mainly in the refinery, gas and power sectors.

Since June 21, 2006, all 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 benchmark index.

As indicated in Note 8, the Company is the parent of a Group of companies (hereinafter, the Group). The accompanying annual accounts were drawn up on an unconsolidated basis. On February 26, 2018, the Company's Board of Directors authorised the 2017 consolidated annual accounts of Técnicas Reunidas, S.A. and its subsidiaries for issue. The consolidated annual accounts were drawn up under the International Financial Reporting Standards as adopted by the European Union (IFRS-EU). As per the consolidated annual accounts, the Group's equity at year-end 2017 stood at €463,304k (2016: €441,826k), a figure which includes profit for the year of €58,966k (2016: €129,187k) of which €39,527 (2016 € 128,853k) are attributable to the owners of the Company.

2. Basis of presentation

Fair presentation

The 2017 annual accounts were prepared from the Company's accounting records and are presented in accordance with prevailing Company law and the accounting rules laid down in the Spanish National Chart of Accounts, enacted by means of Royal Decree 1514/2007,as amended by Royal Decree 1159/2010, by Royal Decree 602/2016 and Ministry of Economy and Finance Order EHA/3362/2010, of 23 December, approving the rules for adapting the Spanish National Chart of Accounts for public infrastructure concession operators. The accompanying accounts were prepared by the Company's directors in order to present fairly its equity and financial position and its financial performance and the changes in equity and cash flows in accordance with the above legislation.

The figures shown are presented in thousand euro, unless otherwise indicated.

Critical aspects of measurement and estimation of uncertainty

The preparation of the annual accounts requires the Company to make estimates and judgements concerning the future that may affect the accounting policies adopted and the amount of related assets, liabilities, income and expense and the scope of related disclosures. Critical judgements and key sources of estimation uncertainty are assessed continually and are based on historic experience and other factors, including forward-looking expectations, which are considered reasonable under the circumstances. Actual results may differ from estimated results.

The main estimates applied by Company management are as follows:

Revenue recognition

The Company uses the percentage-of-completion method to recognise revenue. Use of the percentage-of-completion method requires it to estimate the services performed to date as a proportion of the total services to be performed for each contract. This revenue recognition method is applied only when the outcome of the contract can be reliably estimated and it is likely that the contract will generate profit. If the outcome of the contract cannot be reliably estimated, revenue is recognised to the extent that costs are recovered. When it is likely that the costs of a contract will exceed the revenues, the loss is immediately recognised as an expense. When applying the percentage-of-completion method, the Company makes significant estimates regarding the total costs necessary to perform the contract. These estimates are reviewed and assessed regularly in order to verify whether or not a loss has been generated and whether it is possible to continue to apply the percentage-of-completion method or whether it is necessary to re-estimate the expected margin on the project.

Contract revenues arising from claims made by the Group against customers or from changes in the scope of the project concerned, are included as revenue when they are approved by the final customer or when it is probable that the Group will receive an inflow of funds.

Income tax and deferred tax assets

The calculation of income tax requires the interpretation of tax legislation applicable to the Company. There are also several factors related mainly, but not exclusively, to changes in tax laws and changes in the interpretation of tax laws already in force that require the use of estimates by Company management. In addition, the Company assesses the recoverability of deferred tax assets based on the existence of future taxable income against which these assets may be utilised. Regarding uncertain tax positions, the Company's management, as the head of the consolidated tax group, evaluates the probabilities and quantifies the amounts based on past experience with similar operations, consulting with tax advisers and other experts as needed.

Provisions

Provisions are recognised when it is probable that a present obligation, arising as a result of past events, will give rise to an outflow of resources embodying economic benefits, and the amount of the obligation can be estimated reliably. Significant estimates are required to fulfill the applicable accounting requirements. Company management estimates, evaluating all relevant information and events, the probability of a contingency occurring and the amount of the liability to be settled in the future.

Accounts receivable

The Company makes estimates relating to the collectability of trade receivables for projects affected by unresolved disputes or litigation in progress deriving from acceptance issues regarding completed work or the failure to comply with contractual clauses related to the performance of assets delivered to customers.

Fair value of unlisted financial instruments

The Company determines the fair value of unlisted financial instruments (assets and liabilities) using valuation techniques. The Company exercises judgement in selecting a range of methods and assumptions which are based primarily on prevailing market conditions at the reporting date. The Company has used discounted cash flow analyses for some derivatives not traded on active markets, or other objective evidence of the fair value of the instrument concerned, such as recent comparable transactions or the value of call or put options outstanding at the balance sheet date.

Warranty claims

The Company generally offers 24 or 36-month warranties on its work and services. Management estimates the relevant provision for future warranty claims based on past information regarding such claims, as well as recent trends that may suggest that past information regarding costs may differ from future claims.

Impairment of investments in Group companies, jointly-controlled entities and associates

Investments in Group companies, jointly-controlled entities and associates are tested for impairment, as set forth in Note 3.5.d. As these companies are not listed, their recoverable amounts are based on the carrying amount of the shareholdings adjusted for any unrealised capital gains at the measurement date. These calculations require the use of estimates.

Useful lives of items of PPE and intangible assets

Management determines the estimated useful lives and resulting depreciation and amortization charges for PPE and intangible assets. The useful lives of non-current assets are estimated based on the period over which the asset will generate economic benefits. At each close, the Company reviews the useful lives of its assets. When changes from previous estimations are identified, the necessary adjustments are made on a prospective basis.

Impairment of concession assets

The estimated recoverable amount of the concessions operated by the Group was determined using discounted cash flow analysis based on budgets and projections for the respective assets and business-appropriate discount rates.

Management did not exercise judgement in applying its accounting policies other than in calculating the estimates listed above.

Aggregation

Certain items presented on the balance sheet, income statement, statement of changes in equity and cash flow statement are aggregated to facilitate reader comprehension, while the required breakdowns are provided in the accompanying notes.

3. Accounting policies

3.1 Intangible assets

Research and development expenses

Research expenses are recognized as an expense in the reporting period in which they are incurred, while development cost related to a project are recognized as intangible assets if it is feasible from a technical and commercial perspective, sufficient technical and financial resources are available to complete it, costs incurred can be determined reliably and the generation of profit is probable.

Other development expenses are recognized as an expense when incurred. Development cost previously recognized as an expense are not recognized as an asset in the subsequent period. The development costs with a finite useful life that are capitalized, they are amortized in a straight-line basis during their estimated useful life for each project, without exceeding 5 years.

When the book value of an asset exceeds its estimated recoverable amount, its value is immediately reduced to its recoverable amount (Note 3.4).

In case of changes in the favorable circumstances of the project that allowed to capitalize the development expenses, the part still to be amortized is translated into income in the year in which those circumstances change.

Software

Software includes the ownership and user rights for computer software acquired from third parties or developed by the Company and intended for use during several years. Licences for software acquired from third parties are capitalised at the acquisition cost plus costs incurred to get it ready for use. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company which are deemed likely to generate future economic benefits in excess of costs for more than one year are recognised as intangible assets. Direct costs include software development costs and an appropriate portion of relevant overhead.

Software is amortized on a straight-line basis over a four-year period from when it is implemented. Software maintenance charges are accounted as expenditure of the year in which they are incurred.

Patents, licenses and trademarks

This heading recognises the amounts satisfied for ownership of or licences for its various items of industrial property. Industrial property has a finite useful life and is amortized over this term on a straight-line basis.

Concession arrangements, regulated assets

Concessions refer to the administrative authorizations granted by a number of municipal councils to build and operate car parks and other assets for the period of time stipulated in each contract. The accounting treatment of these assets has been defined based on the classification of the concession assets as intangible assets measured at fair value (understood to be the value resulting from their construction). Once the assets held under concession become operational, the concession receipts are recognized as revenue, operating expenses are expensed currently, while the intangible assets are amortized on a straight-line basis over the term of the concession. Project returns are reviewed at each year-end to assess whether or not there is any indication of impairment, i.e., an indication that their value may not be recoverable through the revenues generated while in use.

Throughout the terms of these concessions, the concessionaire is obliged to repair and maintain the facilities and to keep them in good shape. These maintenance and repair expenses are recognized in the income statement. No liabilities were recognized since the current value of the obligation is negligible.

3.2 Property, plant and equipment

Items of property, plant and equipment are recognised at cost less accumulated depreciation and any accumulated impairment losses.

Own work capitalised is calculated by adding the acquisition cost of consumables, direct costs and indirect costs attributable to the assets and is recognised as revenue in the income statement.

The costs incurred to extend, modernise or upgrade items of property, plant and equipment are capitalised only when they entail an increase in the asset's capacity, productivity or an extension of its useful life, and so long as it is possible to ascertain or estimate the carrying amount of the assets derecognised in the course of the substitution.

The costs of major repairs are capitalised and depreciated over their estimated useful lives, while recurring maintenance expenses are taken to the income statement in the year incurred.

The depreciation of items of property, plant and equipment is calculated on a straight-line basis based on their estimated useful lives and residual values, with the exception of land which is not depreciated. The estimated useful lives of each asset category are as follows:

	Depreciation rates
Buildings	2%
Laboratory facilities	20%
Photocopiers	10%
General installations	6%
Air conditioning equipment	8%
Topography work stations	10%
Furniture and office equipment	10%-25%
Other equipment	15%
Data-processing equipment	25%
Vehicles	14%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When the carrying amount of an asset is higher than its estimated recoverable amount, the carrying amount is immediately reduced accordingly (Note 3.4).

Gains and losses on the sale of property, plant and equipment are calculated by comparing the consideration received with the carrying amount and are recognised in the income statement.

3.3 Borrowing costs

The borrowing costs directly attributable to the acquisition or construction of items of property, plant and equipment that require more than one year to be ready for their intended use are capitalised until the qualifying assets are ready for use.

3.4 Impairment of non-financial assets

The Company has not recognised any intangible assets with an indefinite useful life in the balance sheet.

The Company reviews the assets subject to depreciation at each close to verify whether or not any events or changes in circumstances indicate that the carrying amount may not be recoverable. The excess of the carrying amount of an asset over its recoverable amount, deemed the higher of fair value less costs to sell or value in use, is recognised as an impairment loss. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). For those assets that do not generate cash flows that are largely independent, the recoverable amount is determined for the cash-generating units to which the asset belongs. Impaired non-financial assets are reassessed at each balance sheet date for potential reversal of the impairment.

3.5 Financial assets

The Company establishes the classification of investments for measurement purposes upon initial recognition and reviews the classification at each reporting date. The classification depends on the purpose for which the financial assets were acquired. Financial assets are measured as follows:

Loans and receivables: financial assets deriving from the sale of goods or rendering of services as part of the Company's ordinary course of business. This category also includes loans that are not commercial in origin, are neither equity instruments nor derivatives, carry fixed or determinable payments and are not quoted in an active market.

These financial assets are recognised initially at fair value, including directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method, understood as the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to its net carrying amount. Nevertheless, trade receivables which are due within less than one year are carried at nominal value, upon initial recognition and for subsequent measurement purposes, when the effect of not discounting the cash flows is not material.

Loans and receivables are tested for impairment at least at each reporting date and the corresponding impairment losses are recognised when there is objective evidence that all amounts due to the Company will not be collected. Impairment losses are recognised at the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the effective interest rate prevailing at the initial recognition date. Impairment losses and any subsequent reversals are recognised in the income statement.

Held-to-maturity investments: debt securities with fixed maturities and fixed or determinable payments traded on active markets which the Company has the positive intention and the ability to hold to maturity. If the Company were to sell a material portion of its held-to-maturity investments, the entire category would be reclassified to available-for-sale. These financial assets are included in current assets, except for amounts due more than 12 months from the end of the reporting period, which are classified as non-current assets. The criteria for measuring these investments are the same as those for measuring loans and receivables.

Financial assets held for trading and other financial assets at fair value through profit or loss: Financial assets at fair value through profit or loss include all assets held for trading acquired for sale in the short term or as part of a portfolio of identified financial instruments that are managed together with a view to generating short term returns and financial assets designated within this category by management upon initial recognition based on the determination that so doing results in more meaningful disclosures. Derivatives are also classified as held for trading unless they constitute financial guarantee contracts or are designated as hedging instruments (Note 3.12).

These instruments are initially recognised and subsequently measured at fair value and any changes in fair value are recognised in the income statement. Transaction costs that are directly attributable to the acquisition of these assets are expensed currently.

Equity investments in Group companies, jointly-controlled entities and associates: this category recognises equity investments in Group companies, jointly-controlled entities and associates. These financial assets are measured at cost, less any accumulated impairment losses. However, if the Company held an investment in these entities before they were classified as a Group Company, jointly controlled entity or associate, cost is deemed the carrying amount of that investment prior to the classification change. Prior measurement adjustments recognised directly in equity are kept in equity until the investments are derecognised.

At year-end the Company determines whether there is any objective evidence that the carrying amount of these investments may not be recoverable, recognising any corresponding impairment losses, calculated as the difference between the investment's carrying amount and recoverable amount, deemed to be the higher of fair value less costs to sell and the present value of projected cash flows from the investment. Unless better evidence is available, impairment of this type of asset is estimated based on the investee's equity, adjusted for any unrealised capital gains at the measurement date. Impairment losses and any subsequent reversals are recognised in the income statement in the year they arise.

Available-for-sale financial assets: This classification relates to non-derivative financial assets that are designated as available for sale or are not included in any other category. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

They are valued at their fair value, recording the changes that occur directly in the equity until the asset is disposed of or impaired, at which time the losses and accumulated gains in equity are charged to the income statement, provided that it is possible to determine the aforementioned fair value. Otherwise, recorded at cost less impairment losses.

In the case of available-for-sale financial assets, corrections are made if there is objective evidence that its value has been impaired as a reduction or delay in future estimated cash flows in the case of debt or due to the lack of recoverability of the asset's carrying amount in the event of investments in equity instruments. Valuation correction is the difference between its cost or amortized cost less, if any, any valuation correction previously recognized in the income statement and the fair value at the time of carrying out the assessment. In the case of equity instruments valued at cost as its fair value cannot be determined, the value adjustment is determined on the same basis as for investments in the equity of group, multi-group and associated companies.

If there is objective evidence of impairment, the Company recognizes in the accumulated losses previously recognized in equity decrease in fair value. Impairment losses recognized in the account of gains and losses on equity instruments are not reversed through the income statement.

The fair values of listed investments are based on prevailing bid prices. If there is no active market for a financial asset (as in the case of unlisted securities), the Company establishes fair value by using valuation techniques such as analysis of recent transactions between knowledgeable, willing parties involving instruments which are substantially identical, discounted cash flow analysis and option pricing models, making maximum use of market observable inputs and relying as little as possible on subjective judgements made by the Company.

Financial assets are derecognised when substantially all the risks and rewards of ownership of the financial asset have been transferred. Specifically in relation to accounts receivable, this transfer is generally deemed to take place when the risks of insolvency and non-payment have been transferred.

Financial assets classified as hedged items are subject to hedge accounting measurement rules (Note 3.12).

3.6 Assets and liabilities classified as non-current (disposal groups) held for sale and discontinued operations.

Non-current assets (or disposal groups) are classified as held for sale if their amount is going to be recovered mainly through a sale transaction, instead of its continuing use, and their sale is considered highly probable. They are valued at the lowest value between its carrying amount and its fair value less the costs of sales, except for assets such as deferred tax assets, assets related to employee benefits, financial assets and investment properties that are recorded at fair value and contractual rights from insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognized for any initial or subsequent reduction of value of the asset (or disposal group) to fair value less the costs of sales. A gain is recognized for any subsequent increase in fair value less the costs of sales an asset (or disposable group), but not above the impairment loss that would have been recognized previously. The loss or gain not previously recognized on the date of sale of a non-current asset (or disposable group) is recognized on the date it is written off accounts.

Non-current assets (including those that are part of a disposal group) are not amortized while classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue being recognized.

Non-current assets classified as held for sale and assets of a group classified as held for sale are presented separately from other assets on the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been transferred or has been classified as held for sale, and which represents a line of business or a geographical area of significant and separate exploitation, is part of an individual and coordinated plan for to dispose of such business line or operating area, or is an acquired subsidiary exclusively for the purpose of reselling it. The results of the discontinued operations were presented separately in the income statement.

3.7 Inventories

This caption includes the costs related to the submission of tenders for the national and abroad works as well as parking spaces for sale.

Cost of the tenders are recognized as inventories when is probable or it is known that the agreement will be obtained or when is known that these costs will be reimbursed or included in the proceeds of the agreement. These costs will be charged to the income statement account according to the percentage of the completion of the project.

Parking lots will be valued at the initial acquisition cost, and latter the lower between the cost and net realizable value.

3.8 Cash and cash equivalents

Cash and cash equivalents include cash, deposits held at call with banks and other short-term highly liquid investments with an original maturity of three months or less, subject to an insignificant risk of changes in value. Bank overdrafts are included within borrowings in current liabilities on the balance sheet. The Company had no bank overdrafts at December 31, 2017 and 2016.

3.9 Equity

The Company's share capital is represented by ordinary shares.

The costs of issuing new shares or stock options are recognised directly against equity as a deduction from reserves.

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

3.10 Financial liabilities

Trade and other payables:This category includes trade and non-trade payables. These liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months from the balance sheet date.

These liabilities are initially recognised at fair value, adjusted for directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate is that which exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount of the financial liability.

Nevertheless, trade payables which are due within less than one year and do not carry a contractual interest rate are carried at their nominal value upon initial recognition and for subsequent measurement purposes, when the effect of not discounting the cash flows is not material.

These financial liabilities are initially recognised and subsequently measured at fair value and any changes in fair value are recognised in the income statement. Transaction costs that are directly attributable to the issuance of these liabilities are recognised in the income statement in the year they are incurred.

A financial liability is derecognised when the corresponding obligation is extinguished.

3.11 Grants received

Government grants are recognised at fair value when there is reasonable assurance that the grant will be collected and the Company will comply with all established terms and conditions.

Grants for the acquisition of items of property, plant and equipment or intangible assets are included in non-current liabilities as deferred government grants and released to the income statement on a straight-line basis over the estimated useful lives of the assets concerned.

3.12 Derivative financial instruments and hedge accounting

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

The Company designates certain derivatives as cash flow hedges. The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognised temporarily in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within net finance income/cost. Amounts deferred in equity are transferred to the income statement in the year in which the hedged transaction affects profit or loss. When the hedged forecast transaction results in the recognition of a non-financial asset or liability, the losses and gains previously deferred in equity are transferred out of equity, and included in the initial measurement of the cost of the asset or liability.

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

In the case of derivatives not designated as hedging instruments, or which do not qualify for hedge accounting, fluctuations in their fair value at each measurement date are recognised within net finance income/cost in the income statement

3.13 Current and deferred tax

Tax expense (income) is the amount of income tax accrued for the year and includes current and deferred tax expense (income).

Both current and deferred tax expense (income) are recognised in the income statement. However, the tax effects of items recognised directly with a credit or charge to equity are also recognised in equity.

Current tax assets and liabilities are measured at the amounts expected to be payable or recoverable from the tax authorities based on tax regulations prevailing at year-end. Deferred tax assets and liabilities are not discounted for measurement purposes.

Deferred taxes are calculated, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

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

However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred income tax is determined using tax rates and laws, that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Técnicas Reunidas, S.A. files its income tax return as part of a consolidated tax group together with certain Group companies.

3.14 Provisions and contingent liabilities

The Company recognises provisions when it has a present obligation, whether legal or implicit, as a result of past events, settlement of which is expected to result in an outflow of resources, the amount of which can be reliably estimated. The Company does not recognise provisions for future operating losses although it does recognise provisions for engineering contracts expected to generate losses.

Provisions are recorded based on the best estimate of the liability payable by the Company, bearing in mind the effects of exchange rate fluctuations on amounts denominated in foreign currency and the time value of money, if the effect of discounting is significant.

Contingent liabilities, meanwhile, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Contingent liabilities are not recognised in the annual accounts but are disclosed in Note 27.

3.15 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable on the sale of goods and services in the ordinary course of the Company's business. Revenue is recognised net of value added tax, returns, rebates and discounts. The Company recognises revenue when the amount can be reliably calculated, the future economic benefits are likely to flow to it and the specific conditions applicable to each of its businesses are fulfilled, as described below. In relation to inventories, the Company recognises revenue and profit/loss when the significant risks and rewards of ownership have been transferred to the buyer. The amount of revenue cannot be measured until all of the contingencies associated with the sale have been resolved. The Company's estimates are based on historical data, taking into account customer and transaction types, as well as the specific terms of each contract.

Administrative agreements: revenue from the rendering of services under administrative agreements is recognised in the financial year in which the services are provided by reference to the stage of completion method. The price payable by the end customer consists of the direct costs incurred, to which a fixed margin is applied for indirect costs and business profit.

When the outcome of a contract cannot be reliably estimated, the relevant revenue is recognised to the extent of the expenses recognised that are recoverable.

When the outcome of a contract can be reliably estimated and it is probable that the contract will be profitable, contract revenues are recognised over the term of the contract. The revenue recognition method for turnkey engineering contracts varies based on the estimated outcome. When it is probable that contract costs will exceed total contract revenues, the expected loss is recognised immediately as an expense. Otherwise, profits are recognised during the term of the contract according to the stage of completion of the project.

The Company uses the percentage-of-completion method to calculate the adequate amount to be recognised in a given accounting period. The percentage-of-completion is determined based on a financial assessment of costs of the services performed at the balance sheet date as a percentage of the estimated cost of total services to be performed for each contract.

The Company recognises a receivable for the gross amount owed by customers for work performed under all ongoing contracts for which the costs incurred plus recognised profits (less recognised losses) exceed the amount of interim billings. Interim billings outstanding and retentions are included in trade and other accounts receivable.

The Company recognises a liability for the gross amount owed by customers for work performed under all ongoing contracts for which the interim billings exceed costs incurred plus recognised profits (less recognised losses).

The Company occasionally negotiates and signs two or more contracts with the same customer. They are usually contracts in which the cost and turnaround times of one affect the conditions of the other. They are performed simultaneously or overlapping one another for part of the time, in the same industrial area. In these cases, they are treated by the Group as a single contract.

Other times, a single contract may have clearly differentiated parts with different budgets signed with the same customer. In these types of agreements, the customer benefits from each part of the contract while the Group has different performance obligations. If the income and costs of the different parts can be clearly identified, each part is treated as a separate entity.

Given the nature of the Company's business, contracts are often modified while in progress due to changes in the scope of the work that needs to be done under the terms of the contract. These changes can lead to increases or decreases in the revenue from the contract.
Changes are recognised as increases in the value of the contract when it is likely that the customer will approve the change in scope and the resulting price increase and when the amount of the additional income can be reliably calculated.

Situations may also arise while a contract is underway in which the contractor expects to be reimbursed by the customer or a third party for costs not included in the price of the contract. The grounds for such claims are related to and supported by the clauses of the contract and/or situations of force majeure. Income from claims filed under contracts is included as contractual income when the negotiations are in the advanced stages and there is good reason to believe that an agreement will be reached with the customer and the Company will receive the additional income. When evaluating the probability of a claim being successful, in addition to the technical analysis of each case, past experience in situations that are similar either because of the nature of the claim or the counterparty
involved are also analysed, as well as the discussions with the customer in relation to the case.

Depending on the types of projects in the portfolio, negotiations with customers regarding claims may go on during the entire life of the project.

Service concession arrangements: Revenue from activities performed under concession arrangements are recognised as a function of services rendered at the contractually agreed prices.

Dividend income: Dividend income is recognized as income in the income statement when the right to receive collection is established. Notwithstanding the foregoing, if dividends distributed come from results generated prior to the acquisition date, they are not recognized as income, reducing the book value of the investment.

Interest income: is recognized using the effective interest rate method. When an account receivable suffers an impairment loss, the Company reduces the book value to its recoverable amount, discounting the estimated future cash flows at the effective interest rate of the instrument, and continues to carry the discount as less interest income. The interest income on loans that have suffered impairment losses are recognized using the method of effective interest rate.

3.16 Foreign currency transactions

Functional and presentation currency

The Company's annual accounts are presented in Euro, which is both its functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and investment hedges.

3.17 Employee benefits

Termination benefits

Termination benefits are paid to employees as a result of a decision to terminate employment contracts before the normal retirement age or when employees voluntarily agree to resign in return for such benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Profit-sharing and bonus plans

The Company recognises a liability and an expense for bonus and/or profit-sharing arrangements when it is contractually obliged to make payment and when past practice has created a constructive obligation.

3.18 Leases

Finance leases

PPE leases in which the Company acts as lessee and retains substantially all the risks and rewards of ownership of the assets are classified as finance leases. Finance leases are recognised at the inception of the lease term at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Present value is calculated using the rate of interest implicit in the lease agreement, or the interest rate used by the Company for similar transactions.

Lease payments are apportioned between finance charges and reduction of the lease liability. The total finance charge is apportioned over the term of the lease and is recognised in the income statement in the year accrued. The payment obligation under the lease, net of finance charges, is recognised in non-current payables, except for the portion falling due within 12 months. Items of property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Operating leases

Leases arrangements where the lessor retains substantially all the risks and benefits inherent to ownership of the asset are classified as operating leases. When the Company acts as lessee, operating lease payments (net of any bonus received by the lessor) are recognised in the income statement on a straight-line basis over the lease term.

3.19 Group companies and associates

For the purposes of presenting its annual accounts, a Group company is one over which the Company exercises control. Control is presumed to exist when the shareholding exceeds the middle of the voting rights or, if less, when other reasons or events demonstrate the existence of control (for example, agreements between shareholders).

Associates are companies over which the Company exercises significant influence but not control. Significant influence is presumed to exist when the shareholding is between 20% and 50% of the voting rights or, when the shareholding is lower, there are events and circumstances which demonstrate the exercise of significant influence.

3.20 Jointly-controlled entities – UTEs and consortiums

The Company participates in a series of UTEs (see Exhibit I). The Company recognizes its proportionate share of the jointly controlled assets and the liabilities incurred jointly in proportion to the percentage of ownership, as well as the assets assigned to the joint operation that are under control and the liabilities incurred as a result of the joint business.

Likewise, in the income statement it is recognized by the corresponding portion of the income generated and the expenses incurred by the joint business. In addition, the expenses incurred in connection with the participation of the joint business are recorded.

Unrealized results arising from reciprocal transactions are eliminated in proportion to the share, as well as the amounts of assets, liabilities, income, expenses and cash flows.

None of the UTEs use accounting criteria that differs from those applied by the Company.

Shares in jointly-controlled companies are recorded in accordance with the provisions for investments in equity of group, multi-group and associated companies (Note 3.5.d).

3.21 Business combinations

The Company recognises business combinations resulting from the acquisition of shares or equity stakes in another Company in accordance with the rules for accounting for investments in Group companies, jointly-controlled entities and associates (Note 3.5.d).

3.22 Related party transactions

As a general rule, transactions between Group companies are initially accounted for at their fair value. In case, if the agreed price differs from its fair value, the difference is recorded taking into account the economic reality of the operation. Subsequent measurement is carried out in accordance with the provisions of the corresponding accounting rules.

3.23 Cash flow statement

The following expressions are used in the statement of cash flows:

- Cash flows: inflows and outflows of cash and cash equivalents (Note 15).

- Cash flows from operating activities: the principal revenue-producing activities of the Company and other activities that are not investing or financing activities.

- Cash flows from investing activities: payments and collections originating in the acquisition and disposal of non-current assets.

- Cash flows from financing activities: payments and collections arising from the issue and repayment/cancellation of financial liabilities, equity instruments or dividends.

4. Financial risk management

4.1 Financial risk factors

The activities of the Company are exposed to various financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The program's overall risk management of the Company focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is controlled by the Treasury Department of the Company that identifies, evaluates and hedges financial risks under policies approved by the Board of Directors. The Board of Directors provides written policies for overall risk management, as well as for specific areas such as exchange rate risk, interest rate risk, liquidity risk, use of derivative and non-derivative and investment of excess liquidity.

a) Market risk

a.1) Exchange rate risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, particularly to the US dollar (USD), Kuwait dinar (KWD) and Yen (JPY). There is residual exposure to suppliers operating in other currencies (principally Turkish liras, Yen, Australian dollars, Malaysian ringgit, and Peruvian Sol). Foreign exchange risk arises on forecast commercial transactions and recognised assets and liabilities.

To manage the foreign exchange risk that derives from future transactions and recognised assets and liabilities, the Company uses forward contracts, in accordance with the hedging policy in place, brokered by the Group Corporate Treasury Department. Foreign exchange risk arises when the future transactions and recognised assets and liabilities are denominated in a currency other than the Company’s functional currency. The Group´s Department is responsible for managing the net position in each foreign currency using external foreign exchange forward contracts (taking into account the risks derived from currencies linked to the USD, where the agreed hedge protects the USD risk). In addition, the Company tries to hedge exchange rate risk via ‘multicurrency’ contracts with its customers, segregating the selling price in the various currencies from the foreseen expenses and preserving the projected margins in euro terms.

The Company’s risk management policy is to hedge most highly probable forecast transactions in each of the main currencies during the months the project is scheduled to last. The portion of the risk to be hedged in relation to projected sales in each of the main currencies varies by project. These hedges are classified as highly probable forecast transactions for hedge accounting purposes.

The nature of the Company’s business operations means that it is very common to denominate customer transactions in US dollars, while the corresponding costs are habitually denominated in multiple currencies, albeit principally US dollars. If the euro had depreciated / appreciated against the US dollar by a hypothetical 10% as of December 31, 2017, leaving all other variables constant, profit before tax for the year would have been higger / lower €32,614k (2016: €10,666k higher / lower), mainly due to hypothetical gains / losses generated on the revaluation / devaluation of open positions in US dollars.

Meanwhile, if the euro had depreciated / appreciated against the US dollar by a hypothetical 10% in the year ended December 31, 2017, equity would have been higger / lower €38,812k (2016: €76,888k lower / higher); these amounts were calculated based on the changes in profits outlined in the paragraph above and the estimated changes in the value of hedging derivatives recognised in the hedging reserve (all before considering the related tax effects).

a.2) Price risk

The Company is partially exposed to commodity price risks, basically with respect to metals and oil, to the extent that they affect the price of equipment and manufactured materials used in construction projects. In general these impacts are effectively passed on in sales prices by all peer contractors operating in the sector.

The Company is exposed to price risk with respect to equity instruments. Exposure to this risk on account of the investments held by the Company and classified in the balance sheet at fair value through profit or loss is limited because they correspond primarily to investments in fixed-income funds which invest in very short-term assets (assets maturing in less than six months and not exposed to interest rate risk) (Note 9).
The Company reduces and mitigates price risk through the policies established by Group management, which basically consist of accelerating or slowing the rate of placements and selecting the currencies and countries of origin. An additional mechanism used to mitigate this risk takes the form of contracting formulae that apportion a price component for covering possible cost deviations.

a.3) Cash flow interest rate risk

The Company generally attempts to self-finance its projects, establishing invoicing and collection milestones with its clients which cover the payment deadlines committed to with suppliers. This is why the Company presents significant net cash balance. This means that interest rate risk on liability positions is negligible. The Company holds credit facilities to cover their current needs in the projects. Most of these credit facilities are negotiated at variables rates referenced to the EURIBOR. In the current situation of negative rates of EURIBOR, it is considered that the variable rates stated in the credit facilities are the best politic to minimize the interest rate risk. In addition and as a part of the control risk policy and the impact of the variations that have them on them, it has been signed some fixed loans and a new syndicated line of credit in which 42% of it is fixed in order to be protected against possible interest rate rises. If that happens in short-term of the EURIBOR curve, in 2019, 2020, 2021.

The exposure to floating interest at each year-end without abilities related to non-current assets held for sale, is as follows:

	2017			2016		
	Referenced to Euribor	**Other benchmarks**	**Total**	**Referenced to Euribor**	**Other benchmarks**	**Total**
Borrowings (Note 23)	(368,295)	(8,136)	(376,431)	(215,877)	-	(215,877)
Interest-earning cash and cash equivalents (Note 15)	41,950	289,014	330,967	335,918	130,100	466,018
Net cash position	**(326,345)**	**280,878**	**(45,464)**	**120,041**	**130,100**	**250,141**

Based on sensitivity analysis performed on cash and cash equivalents, the impact of a 25 basis point fluctuation (in either direction) in interest rates would imply, at most, an increase / decrease in profit of €1,069k (2016: €625 k).

b) Credit risk

The Company manages its credit risk exposure as a function of the following groups of financial assets:

- Assets arising from derivatives (Note 11).
- Various balances included in cash and cash equivalents (Note 15).
- Trade and other receivable balances (Note 10).

The derivatives and other instruments arranged with financial institutions included as cash and cash equivalents are contracted with highly prestigious financial entities.

In relation to trade accounts receivable it is worth noting that, due to the nature of the business, receivables are highly concentrated among counterparties, mirroring the Company's most important projects. These counterparties are generally state oil companies or multinationals, along with major Spanish energy groups.

The Company's key customers represented 82% of total "Trade receivables" (within Trade and other receivables) at December 31, 2017 (2016: 73%) and are tied to transactions with entities such as those described in the preceding paragraph. As a result, the Company considers credit risk to be very low. In addition to the credit analysis performed before entering into a contract, the global position of trade and other receivables is monitored on an ongoing basis, while the most significant exposures (including exposure to the type of entities mentioned earlier) are monitored at the individual level.

Trade receivables are generally not secured by collateral or subject to other credit enhancements, except when warranted by specific circumstances.

c) Liquidity risk

The prudent management of liquidity risk entails maintaining sufficient cash and marketable securities, ensuring available funding in the form of sufficient committed credit facilities and the ability to monetise market positions. Due to the dynamic nature of the underlying businesses, the Central Treasury Department of the Company aims to maintain funding flexibility by keeping credit lines available.

Because of the status of contracts with customers to include tighter cash flows and the difficulty of passing these payment terms on to suppliers, the Company has had to increase its external financing.

Management monitors liquidity forecasts on the basis of projected cash flows. The Company has credit lines which provides additional support to Liquidity position. For this reason, the Company´s liquidity risk is properly managed.

		Euro thousand
	2017	**2016**
Debt to credit institutions (Note 21)	(376,431)	(215,877)
Cash and cash equivalents (Note 15)	330,967	466,018
Net cash balance	**(45,464)**	**250,141**
Undrawn credit lines (Note 21)	781,244	488,604
Total liquidity reserves	**735,780**	**738,745**

The syndicated line of credit signed at December 23, 2016 amounting to 350 millions of euros requires, among other obligations, that the ratio consolidated net debt consolidated/EBITDA is below or equal to 3.These requirements are complied at the date of preparation of these annual accounts.

The table below shows the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The balances payable within 12 months are equivalent to their carrying amounts, since the effect of discounting them is not significant.

Figures in Euro thousand	Less than one year	Between 1 and 2 years
At December 31, 2016		
Borrowings	288,295	88,137
Derivative financial instruments	18,633	2,489
Trade and other payables	1,949,905	-
Total	**2,256,833**	**90,626**
At December 31, 2017		
Borrowings	64,837	151,040
Derivative financial instruments	72,823	3,843
Trade and other payables	2,465,595	-
Total	**2,603,261**	**154,883**

4.2. Capital risk management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to offer existing and prospective clients sufficient capital to guarantee its ability to handle their projects.

In order to maintain or adjust the capital structure, the Company can adjust the amount of dividends to be paid to shareholders and return capital to shareholders, among other potential initiatives.

The Company monitors capital based on a leverage ratio. This ratio is calculated as debt divided by equity. Debt is calculated as total borrowings. Capital is calculated as equity, as shown in the annual accounts.

	2017	2016
Borrowings (Note 23)	(376,431)	(215,877)
Net cash position	(45,464)	250,141
Equity	**522,134**	**384,317**
% Borrowings/ Equity	**(72.09%)**	**(56.17%)**

4.3. Fair value estimation

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments traded on active markets is based on market prices at each reporting date. A market is considered active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions between independent parts. The quoted market price used for the financial assets held by the Company is the current buyer price. These instruments are mainly investments in equity securities classified as trading securities or available for sale.

The fair value of financial instruments that are not quoted in an active market (e.g. derivatives of non-official market) is determined by using valuation techniques. These valuation techniques maximise the use of available observable data inputs and rely as little as possible on entity-specific estimates.

Specific valuation techniques used to value financial instruments include:

Quoted market prices or dealer quotes for similar instruments.

The current value of the FX futures is calculated using the futures exchange rate on the balance sheet date, discounting the result from the current value. Other techniques, such as analysing discounted cash flows, are used to analyse the fair value of other financial instruments.

When measuring the fair value of financial instruments, credit risk must be considered, this being understood as the credit risk of the counterparty but also that of the Company itself, where necessary.

In view of the characteristics of the Company's portfolio, the application of credit risk has the most significant impact on the portfolio of financial derivatives designated as cash flow hedges, which are measured at fair value.

These instruments are unique in that the expected cash flows are not pre-determined; rather, they vary based on the underlying financial variable so determining the credit risk to be applied, i.e., the Company's own or the counterparty's, is not intuitive but rather depends on market conditions at any given time and hence needs to be quantified using measurement models. Derivatives contracted by the Company correspond to currency futures and commodity futures.

Currency forwards consist of the purchase of one currency against the sale of a different currency in which the exchange rate is fixed on the date of the contract to be delivered or settled in the future, starting on the third business day after the contract date.

Raw material forwards consist of the future purchase or sale of a raw material in which the exchange rate is fixed on the date of the contract and to be delivered or settled in the future, starting on the third business day after the contract date.

The effect of credit risk on the value of currency and raw material forwards will depend on future settlements. If the settlement is positive for the Company, a credit spread is incorporated for the counterparty to quantify the probability of non-payment at the time of maturity; otherwise, if the settlement is expected to be negative for the Company, the credit risk is applied to the Company's final settlement. To determine whether or not the settlement of the forwards will be favorable for the Group, a stochastic model is used to simulate the derivative's behavior in different scenarios using complex mathematical models that consider the underlying's volatility and applying the resulting credit spread to each simulation.

It is assumed that the carrying value less the provision for impairment of accounts receivable and payable approximates fair value. The fair value of financial liabilities for reporting purposes is estimated by discounting future contractual cash flows at the prevailing market interest rate that would be borne by the Company on equivalent financial instruments.

5. Intangible assets

Detail and changes of the various items comprising ‘Intangible assets’ is provided below:

				Euro thousand
	Concession arrangements, regulated assets	Patents, licenses and trademarks	Computer software	Total
Balance at 01-01-2016:				
Cost	64,969	13	12,057	77,039
Accumulated amortization	(2,011)	-	(9,179)	(11,190)
Accumulated impairment losses	(2,200)	-	-	(2,200)
Carrying amount	**60,758**	**13**	**2,878**	**63,649**
Additions	-	-	1,017	1,017
Decreases	-	-	(55)	(55)
Transfers	(73,467)	359	(99)	(73,207)
UTEs incorporation	9,775	-	-	9,775
Amortization charge	(2,243)	-	(375)	(2,618)
Amortization and impairment transfers	6,431	-	75	6,506
Amortization decreases	-	-	-	-
Other cost movements	(386)	-	80	(306)
Other amortization movements	(282)	-	74	(208)
Balance at 31-12-2016:				
Cost	891	372	13,000	14,263
Accumulated amortization	(305)	-	(9,405)	(9,710)
Accumulated impairment losses		-	-	-
Carrying amount	**586**	**372**	**3,595**	**4,553**
Additions	-	-	951	951
Decreases	-	-	(4)	(4)
Transfer	-	-	-	-
Amortization charge	(30)	-	(1,491)	(1,521)
Amortization decreases	-	-	4	4
Other cost movements	3	(2)	(4)	(3)
Other amortization movements	-	-	(1)	(1)
Balance at 31-12-2017:				
Cost	894	370	13,943	15,207
Accumulated amortization	(335)	-	(10,893)	(11,228)
Accumulated impairment losses	-	-	-	-
Carrying amount	**559**	**370**	**3,050**	**3,979**

The ‘Concession arrangements, regulated assets’ caption includes concessions for the operation of underground parking in Huercal-Overa (Almería) and the underground parking located in Alcobendas.

The table below details the most significant terms and conditions of the service concession arrangements operated by the Company:

Concession	Term	Remuneration	Redemption
Underground car park at Huercal - Overa (Almería)	30 years	User charges	Subject to successive term extensions
Alcobendas underground car park	75 years	User charges	At end of concession term

Operating income from the operation of these concessions amounts to €130k in 2017 (2016: € 42k).

During 2016, it was transferred to “Non-current assets held for sale” the net book value of concessions of the Alcobendas the Sports Complex and the Sports Complex, parking and public spaces in San Sebastián de los Reyes, La Viña Center, since the Company's management decided to sale them (Note 12).

All of the aforementioned concession agreements are governed by the Contracts Act with the Public Administrations.

During financial years 2017 and 2016, no financial expenses have been capitalized, as well as any impairment adjustments, in addition to those already recorded, have been recognized.

Computer Software relates to the ownership and user rights for computer software acquired from third parties.

At December 31, 2017, there were fully-amortized intangible assets still in use with an original cost of €6,364k (2016: €6,364k) and related to Computer Software.

At the end of each year, the Company analyses the yield on each Concession - Arrangements asset in order to note indicators of impairment, loss of value or asset recovery. The different internal and external circumstances that could result in impairment, such as the market value of assets, the evolution of business plans, changes in management, changes enviroment (legal, fiscal, economic etc), evolution of interest rates, obsolescence or physical deterioration are evaluated.

With regard to concession contracts, the Company is complying with the terms of the business plans for each project, although operating losses are expected in the first few years. The validity and progress of those plans are reviewed annually. At the end of 2017 and 2016, no indications of impairment were noted regarding the Concession Arrangements recorded under this heading.

6. Property, plant and equipment

The reconciliation of the carrying amount the items comprising property, plant and equipment at the beginning and end of the year is as follows:

	Euro thousand		
	Land and buildings	**Plant and other PPE**	**Total**
Balance at 1-1-2016			
Cost	2,710	93,057	95,767
Accumulated depreciation	(798)	(48,574)	(49,372)
Carrying amount	**1,912**	**44,483**	**46,395**
Additions	-	12,650	12,650
Decreases	-	(2,198)	(2,198)
Transfer	-	(1,101)	(1,101)
Depreciation charge	(93)	(11,571)	(11,664)
Depreciation decreases	-	2,198	2,198
Depreciation transfers	-	429	429
Balance at 31-12-2016			
Cost	2,710	102,408	105,118
Accumulated depreciation	(891)	(57,517)	(58,408)
Carrying amount	**1,819**	**44,889**	**46,709**
Additions	-	8,663	8,663
Disposals	(2)	(10,679)	(10,681)
Depreciation charge	(91)	(11,844)	(11,935)
Depreciation decreases	-	1,907	1,907
Other cost movements	-	(2,805)	(2,805)
Other amortization movements	-	1,397	1,397
Balance at 31-12-2017			
Cost	2,708	97,587	100,295
Accumulated depreciation	(982)	(66,057)	(67,039)
Carrying amount	**1,726**	**31,530**	**33,256**

The “Plant and other PPE” decrease is mainly related to temporary facilities in Kuwait.

a) Impairment losses

The Company neither recognised new impairment losses nor reversed previously recognised impairment losses on any item of property, plant and equipment in either 2017 or 2016.

b) Property, plant and equipment located abroad

At December 31, 2017, the carrying amount of items of property, plant and equipment located outside Spain (“Plant and other PPE”) is €6,710k (2016: €17,030k). Accumulated depreciation on these assets stands at €8,603k (2016: €4,828k).

c) Fully-depreciated assets

At December 31, 2017, there were fully depreciated items of property, plant and equipment still in use with an original cost of €31,463k (2016: €26,941k).

d) Assets under finance lease

“Plant and other items of PPE” includes the following amounts held under finance leases in which the Company is the lessee:

	Euro thousand	
	2017	**2016**
Capitalised finance lease cost	6,805	6,805
Accumulated depreciation	(6,805)	(6,805)
Carrying amount	-	-

Finance lease agreements entered into by the Company mainly relate to the acquisition of computer equipment. These contracts have an average term of 3 years.

e) Assets under operating lease

The “External Services” epigraph in the income statement recognises operating lease expense related to office rentals in the amount of €45,585 k (2016: €28,798k).

f) Insurance

The Company's policy is to write any insurance policies deemed necessary to cover risks to which its property, plant and equipment are exposed. The coverage of these policies are considered reasonable.

7. Analysis of financial instruments

7.1 Analysis by category

The carrying amount of the financial instrument categories established in the rules for recognition and measurement of financial instruments, with the exception of equity investments in group companies, jointly-controlled entities and associates (Note 8.a), inventories and advances to suppliers are follows:

a) Financial assets:

					Euro thousand
At 31 December 2017	**Other**	**Financial assets at fair value through profit or loss (Note 9)**	**Loans and receivables (Notes 8&10)**	**Hedging derivatives (Note 11)**	**Cash and cash equivalents (Note 15)**
Equity instruments	890	-	-	-	-
Derivatives	-	-	-	305	-
Other financial assets	-	-	16,792	-	-
Non - current	**890**	**-**	**16,792**	**305**	**-**
Debt securities	-	43,976	-	-	-
Derivatives	-	-	-	28,244	-
Other financial assets	-	-	2,444,429	-	330,967
Current	**-**	**43,976**	**2,444,429**	**28,244**	**330,967**

					Euro thousand
At 31 December 2016	Other	Financial assets at fair value through profit or loss (Note 9)	Loans and receivables (Notes 8&10)	Hedging derivatives (Note 11)	Cash and cash equivalents (Note 15)
Equity instruments	890	-	-	-	-
Derivatives	-	-	-	2,780	-
Other financial assets	-	-	19,070	-	-
Non-current	**890**	**-**	**19,070**	**2,780**	**-**
Debt securities	-	41,311		-	-
Derivatives	-	-		13,749	-
Other financial assets	-	-	2,264,939	-	466,018
Current	**-**	**41,311**	**2,264,939**	**13,749**	**466,018**

b) Financial liabilities:

				Euro thousand
	2017		2016	
	Debt and other payables (Notes 21&23)	Hedging derivatives (Note 11)	Debt and other payables (Notes 21 & 23)	Derivados de cobertura (Note 11)
Long-term and short-term-debt (Note 21)	88,136	-	151,040	-
Derivatives	-	2,489	-	3,843
Other financial liabilities	4,119	-	4,211	-
Non-current	**92,255**	**2,489**	**155,251**	**3,843**
Long-term and short-term-debt (Note 21)	288,295	-	64,837	-
Derivatives	-	18,633	-	72,823
Other financial liabilities	2,320,785	-	2,578,282	-
Current	**2,609,080**	**18,633**	**2,643,119**	**72,823**

8. Investments in group companies, jointly-controlled entities and associates

The breakdown of investments in group companies, jointly controlled entities and associates is as follows:

	Euro thousand	
	2017	2016
Equity investments in group companies, jointly-controlled entities and associates (a)	153,282	87,909
Investments in group companies, jointly-controlled entities and associates short-term (b)	593,837	592,682
	747,119	**680,591**

(a) Equity investments in group companies, jointly-controlled entities and associates

This heading reflects the Company's equity investments in group companies, jointly-controlled entities and associates.

In 2017, dividends received amounted to €69,621k (2016: €61,458k) and are recognised as finance income in the income statement (Note 26).

In 2016, the following companies were incorporated:

- TR Canada E&C INC
- Deportes Valdavia, S.L.

The breakdown of investments in group companies, jointly-controlled entities and associates at year-ended at 2017 and 2016 is follows:

	31.12.16	Additions	Disposals	Transfers	31.12.17
Investments in group companies, multigroup and associated	152,298	68,459	(2)	1,307	222,062
Capital not paid	(1,191)	-	-	-	(1,191)
Impairment of investments	(63,198)	(3,533)	2	(860)	(67,591)
Total	**87,909**	**64,926**	**-**	**447**	**153,282**

	31.12.15	Additions	Disposals	Transfers	31.12.16
Investments in group companies, multigroup and associated	148,255	21,742	(17,214)	(485)	152,298
Capital not paid	(1,191)	-	-	-	(1,191)
Impairment of investments	(55,442)	(635)	6,626	(13,747)	(63,198)
Total	**91,622**	**21,107**	**(10,588)**	**(14,232)**	**87,909**

Additions regarding to investments in group, multi-group and associated companies mainly correspond to the capital increase of TSGI Muhendislik INSAAT LTD. SIRKETI for €23,448k and the fund contribution to INITEC Plantas Industriales, S.A.U. for €45,000k. In 2016, the additions regarding to investments in group, multi-group and associated companies correspond to the capital increase of the subsidiary in Canada for €13,741k and in Arabia for €7,998k euro respectively. During 2017, there is no significant disposals. In 2016, disposals mainly refer to the return of the contribution of capital in the subsidiary of Bolivia for €10,275k.

In relation to the impairment of the investments, there is no significant impairment. In 2016, the impairment of the year corresponds mainly to the sale of Layar Castilla, S.A.

The detailed of the listing investments in companies of the group, multigroup and associates as of December 31, 2017 and 2016 is as follows:

Equity investments in group companies, jointly-controlled entities and associates 2017

Company	Address	Activity	Direct Interest	Indirect Interest	Net book value	Equity			
						Capital	Reserves	Net income	Dividends
Técnicas Reunidas Internacional, S.A.	SPAIN	ENGINEERING SERVICES	100.00%	-	120	120	1,837	52	-
Técnicas Reunidas Australia Pty.	AUSTRALIA	ENGINEERING SERVICES	100.00%	-	-	-	1,495	1,452	(679)
Termotécnica, S.A.	SPAIN	WHOLESALE MACHINE	40.00%	60.00%	300	781	1,094	9	-
TR Construcción y Montaje S.A.	SPAIN	REAL STATE PROMOTION	100.00%	-	150	332	1,187	19	-
Técnicas Reunidas Ecología, S.A.	SPAIN	ENGINEERING SERVICES	100.00%	-	120	120	1,758	(12)	-
Técnicas Reunidas Metalúrgicas, S.A.	SPAIN	ENGINEERING SERVICES	100.00%	-	60	120	2,017	(19)	-
Técnicas Reunidas Trade Panamá, S.A.	PANAMA	COMMERCIAL PROMOTION	100.00%	-	46	46	97	(26)	-
Española de Investigación y Desarrollo S.A.	SPAIN	ENGINEERING SERVICES	100.00%	-	438	90	11,497	(132)	-
TR Proyectos Internacionales, S.A.	SPAIN	PROMOTION AND CONTRACTING	100.00%	-	-	1,503	(812)	(19)	-
Técnicas Reunidas Venezuela S.A	VENEZUELA	COMMERCIAL PROMOTION	100.00%	-	9	-	-	-	-
Layar, S.A.	SPAIN	BUSINESS MANAGEMENT	100.00%	-	5,483	1,085	4,892	306	-
Initec Plantas Industriales, S.A.	SPAIN	ENGINEERING SERVICES	100.00%	-	49,613	6,600	71,350	(47,876)	-
Initec Infraestructuras, S.A.	SPAIN	ENGINEERING SERVICES	100.00%	-	-	1,800	333	8	-
Técnicas Reunidas Ecuador S.A.	ECUADOR	ENGINEERING SERVICES	100.00%	-	3	-	-	-	-
Técnicas Reunidas Gulf L.T.D.	SAUDI ARABIA	ENGINEERING SERVICES	100.00%	-	30,376	550	42,321	(5,039)	-
ReciclAguilar, S.A.	SPAIN	ENGINEERING SERVICES	80.00%	-	-	60	(369)	-	-
TR SNG Alliance Ltd.	CYPRUS	ENGINEERING SERVICES	30.00%	-	38	-	-	-	-
Servicios Unidos S.A.	VENEZUELA	ENGINEERING SERVICES	100.00%	-	74	-	-	-	-
TR Hungary Dufi CCGT Kft	HUNGARY	ENGINEERING SERVICES	85.00%	15.00%	8	10	702	(83)	-
TR Brasil Participaçoes Ltd.	BRAZIL	ENGINEERING SERVICES	50.00%	-	7	-	-	-	-
TR Tec Ltda	BOLIVIA	ENGINEERING SERVICES	12.40%	87.60%	517	2	9,389	(5,221)	-
TR Canada INC	CANADA	ENGINEERING SERVICES	3.96%	96.04%	-	133,937	(109,500)	(65,015)	-
TR Engineers India Private LTD	INDIA	ENGINEERING SERVICES	100.00%	-	10	7	926	49	-
TR Saudi Arabia LLC	SAUDI ARABIA	ENGINEERING SERVICES	50.00%	50.00%	-	479	(553)	-	-
Al Hassan Técnicas Reunidas Project LLC	UNITED ARAB EMIRATES	ENGINEERING SERVICES	100.00%	-	19	-	-	-	-
TR Saudia for Services and Contracting Co. Limited	SAUDI ARABIA	ENGINEERING SERVICES	97.00%	3.00%	33,011	8,502	(25,270)	(63,403)	-
Heymo Ingeniería, S.A.	SPAIN	ENGINEERING SERVICES	100.00%	-	757	903	2,344	960	-
TR Servicios S.R.L. de C.V.	MEXICO	ENGINEERING SERVICES	75.00%	25.00%	4	6	128	17	-
Técnicas Reunidas USA L.L.C.	EEUU	ENGINEERING SERVICES	100.00%	-	27	27	(80)	(802)	-
TR Sagemis Italia S.R.L.	ITALY	ENGINEERING SERVICES	100.00%	-	60	10	3	(20)	-
TR Canadá E&C INC	CANADA	ENGINEERING SERVICES	15.00%	85.00%	5	36	(26)	(143)	-
TR Perú Ingeniería y Construcción	PERU	ENGINEERING SERVICES	100.00%	-	9	9	2,271	(1,322)	(1,515)
Deportes Valdavia	SPAIN	ENGINEERING SERVICES	100.00%	-	3	3	-	(2)	-
TR México Ingeniería y Construcción	MEXICO	ENGINEERING SERVICES	75.00%	25.00%	4	6	(7,711)	1,492	
Single project companies with positive equity *		ENGINEERING SERVICES			25,211	72,365	(8,944)	53,545	(67,255)
Single project companies with negative equity *		ENGINEERING SERVICES			-	3,520	(34,223)	(5,036)	-
Total investment in Group companies					**146,485**				
Associated and multigroup companies									
Empresarios Agrupados, A.I.E.	SPAIN	SERVICES TO COMPANIES	34.40%	8.60%	69	162	588	-	-
Empresarios Agrupados Internacional, S.A.	SPAIN	SERVICES TO COMPANIES	34.40%	8.60%	264	1,202	12,903	1,779	(172)
Ibérica del Espacio	SPAIN	ENGINEERING SERVICES	39.09%	9.78%	2,484	4,459	4,000	(2,247)	-
Master S.A. de Ingeniería y Arquitectura	SPAIN	ENGINEERING SERVICES	40.00%	-	265	152	774	(264)	-
Proyectos Ebramex, S. de R.L. de C.V.	MEXICO	ENGINEERING SERVICES	33.33%	-	-	21,953	(31,400)	(1,564)	-
Minatrico, S. de R.L. de C.V.	MEXICO	ENGINEERING SERVICES	33.33%	-	3,790	41,214	(31,439)	1,595	-
Other					(75)				
Total investment in associates and multigroup					**6.797**				
Total					**153,282**				

Constituted companies are grouped with the purpose of supporting the development of a single project

Equity investments in group companies, jointly-controlled entities and associates in 2016

Company	Addres	Activity	Direct Interest	Indirect Interest	Net book value	Equity: Capital	Equity: Reserves	Equity: Net income	Equity: Dividends
Comercial Técnicas Reunidas, S.L.	SPAIN	COMMERCIAL PROMOTION	100.00%	-	-	-	-	-	-
Técnicas Reunidas Internacional, S.A.	SPAIN	ENGINEERING SERVICES	100.00%	-	120	120	1,819	18	-
Técnicas Reunidas Australia Pty.	AUSTRALIA	ENGINEERING SERVICES	100.00%	-	-	-	1,268	1,062	(1,686)
Termotécnica, S.A.	SPAIN	WHOLESALE MACHINE	40.00%	60.00%	300	781	1,215	(171)	-
TR Construcción y Montaje S.A.	SPAIN	REAL STATE PROMOTION	100.00%	-	150	332	1,183	5	-
Técnicas Reunidas Ecología, S.A.	SPAIN	ENGINEERING SERVICES	100.00%	-	120	120	1,409	348	-
Técnicas Reunidas Metalúrgicas, S.A.	SPAIN	ENGINEERING SERVICES	100.00%	-	60	120	2,267	(64)	-
Técnicas Reunidas Trade Panamá, S.A.	PANAMA	COMMERCIAL PROMOTION	100.00%	-	46	46	62	52	-
Española de Investigación y Desarrollo S.A.	SPAIN	ENGINEERING SERVICES	100.00%	-	438	90	11,856	(359)	-
TR Proyectos Internacionales, S.A.	SPAIN	PROMOTION AND CONTRACTING	100.00%	-	-	1,503	(948)	135	-
Técnicas Reunidas Venezuela S.A	VENEZUELA	COMMERCIAL PROMOTION	100.00%	-	9	-	-	-	-
Layar, S.A.	SPAIN	BUSINESS MANAGEMENT	100.00%	-	5,483	1,085	4,566	326	-
Initec Plantas Industriales, S.A.	SPAIN	ENGINEERING SERVICES	100.00%	-	4,613	6,600	104,988	(90,527)	-
Initec Infraestructuras, S.A.	SPAIN	ENGINEERING SERVICES	100.00%	-	1,322	1,800	(1,979)	2,313	-
Técnicas Reunidas Ecuador S.A.	ECUADOR	ENGINEERING SERVICES	100.00%	-	3	-	-	-	-
Técnicas Reunidas Gulf L.T.D.	SAUIDI ARABIA	ENGINEERING SERVICES	100.00%	-	30,376	550	56,580	(6,325)	-
ReciclAguilar, S.A.	SPAIN	ENGINEERING SERVICES	80.00%	-	-	60	(369)	-	-
TR SNG Alliance Ltd.	CYPRUS	ENGINEERING SERVICES	30.00%	-	38	-	-	-	-
Servicios Unidos S.A.	VENEZUELA	ENGINEERING SERVICES	100.00%	-	74	-	-	-	-
TR Hungary Dufi CCGT Kft	HUNGARY	ENGINEERING SERVICES	85.00%	15.00%	2	2	705	(5)	-
TR Brasil Participaçoes Ltd.	BRAZIL	ENGINEERING SERVICES	50.00%	-	7	-	-	-	-
TR Tec Ltda	BOLIVIA	ENGINEERING SERVICES	12.40%	87.60%	1,252	2	20,337	(10,246)	-
TR Canada INC	CANADA	ENGINEERING SERVICES	10.50%	89.50%	-	133,937	(180,418)	(185,974)	-
TR Engineers India Private LTD	INDIA	ENGINEERING SERVICES	100.00%	-	10	7	664	330	-
TR Saudi Arabia LLC	JEDDAH	ENGINEERING SERVICES	50.00%	50.00%	-	479	(563)	-	-
Al Hassan Técnicas Reunidas Project LLC	SAUDI ARABIA	ENGINEERING SERVICES	100.00%	-	19	-	-	-	-
TR Saudia for Services and Contracting Co. Limited	UNITED ARAB EMIRATES	ENGINEERING SERVICES	97.00%	3.00%	33,011	8,502	(68,273)	36,384	-
Heymo Ingeniería, S.A.	SPAIN	ENGINEERING SERVICES	100.00%	-	757	903	1,118	1,436	-
TR Servicios S.R.L. de C.V.	MEXICO D.F.	ENGINEERING SERVICES	75.00%	25.00%	4	6	14	127	-
Técnicas Reunidas USA L.L.C.	EEUU	ENGINEERING SERVICES	100.00%	-	-	27	(47)	(93)	-
TR Sagemis Italia S.R.L.	ITALY	ENGINEERING SERVICES	100.00%	-	10	10	-	(47)	-
TR Canadá E&C INC	CANADA	ENGINEERING SERVICES	15.00%	85.00%	-	-	(1)	(28)	-
TR Perú Ingeniería y Construcción	PERU	ENGINEERING SERVICES	100.00%	-	9	9	2,679	1,386	-
Single project companies with positive equity *		ENGINEERING SERVICES			1,770	2,021	(2,739)	71,333	(59,771)
Single project companies with negative equity *		ENGINEERING SERVICES			-	3,518	(34,924)	(1,577)	-
Total investment in group companies in interCompany					**80,003**				
Associated and multigroup companies									
Empresarios Agrupados, A.I.E.	SPAIN	SERVICES TO COMPANIES	34.40%	8.60%	69	162	588	-	-
Empresarios Agrupados Internacional, S.A.	SPAIN	SERVICES TO COMPANIES	34.40%	8.60%	264	1,202	11,300	2,103	-
KJT Engehnaria Materiais	MADEIRA	ENGINEERING SERVICES	33.33%	-	-	5	2,033	-	-
Ibérica del Espacio	SPAIN	ENGINEERING SERVICES	39.09%	9.78%	3,650	4,459	3,599	401	-
Master S.A. de Ingeniería y Arquitectura	SPAIN	ENGINEERING SERVICES	40.00%	-	371	152	(852)	1,626	-
Proyectos Ebramex, S. de R.L. de C.V.	MEXICO D.F.	ENGINEERING SERVICES	33.33%	-	-	21,639	(31,281)	(793)	-
Minatrico, S. de R.L. de C.V.	MEXICO D.F.	ENGINEERING SERVICES	33.33%	-	3,598	40,337	(30,450)	906	-
Other					(46)				
Total investment in associated and multigroup companies					**7,906**				
Total					**87,909**				

* Constituted companies are grouped with the purpose of supporting the development of a single project

None of the Company's subsidiaries, jointly-controlled entities or associates is publicly listed.

b) Investments in group companies, jointly-controlled entities and associates short-term

	Euro Thousand	
	2017	**2016**
Loans and receivables	593,837	592,682
Total current	**593,837**	**592,682**

The breakdown by group Company at 31 December 2017 is:

	Receivable related to tax income	Other receivables
Initec Plantas Industriales, S.A.U.	67,259	111,861
TR Saudia TD	-	285.583
TR De Construcao Unip. LDA	-	33,242
TR Canada INC	-	65.470
Eurocontrol	2,094	-
Other associated, multigroup companies and UTEs	1,130	27,198
Current total	**70,483**	**523,354**

The breakdown by group Company at 31 December 2016 was:

	Receivable related to tax income	Other receivable
Initec Plantas Industriales, S.A.	64,111	173,836
TR Saudia LTD	-	250,731
TR De Construcao Unip. LDA	-	32,318
TR Canada INC	-	42,738
Eurocontrol	1,852	-
Other associated, multigroup companies and UTEs	1,192	25,904
Current total	**67,155**	**525,527**

At 31 December 2017, loans to Group companies includes €70,483k (2016: €67,155k) relating to tax receivables arising from income taxes payable by the companies included in the consolidated tax group (Note 24).

The remaining part of this balance corresponds to trade credits extended to group, associates and UTEs, related mainly to engineering services.

The recoverability of the loans made to companies of the Técnicas Reunidas Group are evaluated based on the business plans submitted by those subsidiaries, which are based on their current customer portfolios.

The loans to partners in UTEs and joint ventures earn interest at Euribor + 1% (2016: Euribor + 1.5%).

The carrying amount of loans and other financial assets above does not differ materially from the fair values of these financial assets.

9. Financial assets at fair value through profit or loss

Set out below is an analysis of this heading showing movements:

	Euro thousand	
	2017	**2016**
- Investments in short-term fixed income securities	27,310	22,110
- Investments in short-term listed equity securities (not fixed)	16,666	19,201
	43,976	**41,311**

All these financial assets are designated as held for trading.

Financial assets at fair value through profit or loss are presented within cash flows from operating activities as part of changes in working capital in the cash flows statement.

Financial assets at fair value through profit and loss represent investments in listed equities and short-term fixed-income securities. The fair value of these securities at December 31, 2017 and 2016 was determined based on year-end closing prices. Returns on fixed-income securities are tied to trends in eurozone interest rates.

The movement of these investments in 2017 and 2016 is as follows:

	2017	2016
Balance at January 1	**41,311**	**40,488**
Additions	-	-
Disposals	-	(13)
Results for change of fair value (Note 26)	2,665	836
Balance at December 31	**43,976**	**41,311**

The maximum exposure to credit risk at the reporting date is the fair value of these assets.

10. Trade and other receivables

	Euro thousand	
	2017	**2016**
Trade Receivables	1,474,536	1,358,045
Trade Receivables, related parties	274,977	242,389
Sundry receivables	54,498	23,753
Debtors related parties	50,652	50,574
Receivable from employees	803	675
Current income tax assets	33,384	22,197
Other tax receivables	23,635	29,354
Impairment provisions	(6,840)	(6,840)
	1,905,646	**1,720,149**

The carrying amounts of trade and other receivables do not differ significantly from their fair values.

At December 31, 2017, "Trade Receivables" include €1,188,346k (2016: €1,193,319k) relating to work executed pending to be certified, measured on the basis of the accounting criteria set forth in Note 3.15.

The trade receivables, related parties breakdown is as follows:

	Euro thousand	
	2017	**2016**
Initec Plantas Industriales, S.A.U.	174,876	148,492
Initec Infraestructuras, S.A.U.	14,444	12,822
TR De Construcao Unip. LDA	20,272	20,272
TR Mühendislik Insaat AS	5,296	4,407
TR UK	8,787	-
UTE TSGI	2,218	8,687
Other associated, multigroup companies and UTEs	49,085	47,709
Total Trade Receivable, related parties	**274,977**	**242,389**

The movement in the provision for impairment losses on trade receivables is as follows:

	Euro thousand	
	2017	**2016**
Opening balance	**6,840**	**6,962**
Provision for receivables impairment	-	-
Receivables written off during the year as uncollectible	-	(122)
Closing balance	**6,840**	**6,840**

Accounts receivable from overdue customers less than 3 months old are considered to have not been impaired.The balance of trade receivables past due at 31 December, 2017 was €116,542k (2016: €64,383k) of which 48% correspond to amounts past due by less than 6 months.

Trade receivables past due by less than six months are not deemed impaired.

No other balances included “Trade and other receivables” are deemed impaired.

The carrying amounts of trade receivables, excluding the portion pertaining to work executed pending to be certified, are denominated in the following currencies:

	Euro thousand	
	2017	**2016**
Euro	259,277	272,988
USD	52,917	189,971
Other currencies	405,106	63,871
Subtotal	**717,300**	**526,830**
Completed work pending to be certified (Work in Progress)	1,188,346	1,193,319
Total	**1,905,646**	**1,720,149**

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above.

11. Derivatives - financial instruments

The derivative balances at year-end 2017 and 2016 are as follows:

	Euro thousand			
	2017		**2016**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Foreign exchange forwards – cash flow hedges	28,549	21,122	16,493	76,666
Term contract on raw materials	-	-	36	-
Total	**28,549**	**21,122**	**16,529**	**76,666**
Less non-current portion:				
Foreign exchange forwards – cash flow hedges	305	1,515	2,780	2,539
Term contract on raw materials	-	974	-	1,304
Non-current portion	**305**	**2,489**	**2,780**	**3,843**
Current portion	**28,244**	**18,633**	**13,749**	**72,823**

The derivative financial instruments contracted by the Company mainly correspond to exchange rate forwards to cover future cash flows of highly probable collections. The Company evaluates the effectiveness of the hedges by conducting the corresponding prospective and retrospective efficacy tests, comparing the variations in the cash flows covered with respect to the changes in the cash flows of the assigned derivative.

Set out below is a maturity schedule for the contracts in force at 31 December 2017 and 2016:

	Fair value (Euro thousand)	Notional currency	Notional maturity (Euro thousand)			
Type of instrument	**2017**		**2018**	**2019**	**2020**	**Total**
USD / JPY	50	USD	2,209	-	-	2,209
USD / EUR	27.099	USD	932,672	-	-	932,672
JPY/ EUR	210	JPY	655,350	-	-	655,350
USD/KWD	765	KWD	56,889	-	-	56,889
PLN / EUR	4	PLN	2,135	-	-	2,135
GBP/USD	21	USD	1,060	-	-	1,060
EUR/NOK	3	NOK	17,000	-	-	17,000
USD/CHF	294	CHF	5,700	13,300	-	19,000
KWD / EUR	103	KWD	-	340	-	340
Assets	**28,549**					
Foreign currency forwards						
USD / EUR	14,208	USD	197,834	-	-	197,834
USD / JPY	1,200	USD	11,363	-	-	11,363
GBP / EUR	151	GBP	10,000	-	-	10,000
USD / NOK	47	NOK	4,093	-	-	4,093
KWD/EUR	2,595	KWD	950	8,700	-	9,650
GBP/USD	86	USD	1,929	-	-	1,929
KWD/USD	710	USD	56,879	-	-	56,879
JPY/ EUR	949	JPY	705,500	-	-	705,500
PLN / EUR	202	PLN	49,151	-	-	49,151
Raw material forwards						
Commodity	974	USD/EUR		29,377		
Liabilities	**21,122**					
Net balances	**7,427**					

	Fair value (Euro thousand)	Notional currency	Notional maturity (Euro thousand)			
Type of instrument	**2016**		**2017**	**2018**	**2019**	**Total**
Foreign currency forwards						
USD / JPY	257	USD	3,420	-	-	**3,420**
USD / EUR	11,001	USD	28,634	-	-	**28,634**
JPY / EUR	344	JPY	465,800	-	-	**465,800**
USD/KWD	481	USD	23,339	139,869	-	**163,208**
PLN / EUR	103	PLN	20,415	-	-	**20,415**
USD/MXN	115	USD	2,055	-	-	**2,055**
KWD / EUR	4192	KWD	11,595	-	11,920	**23,515**
Raw material forwards						
Derivative on copper	36					
Assets	**16,529**					
Foreign currency forwards						
USD / EUR	69,424	USD	1,075,381	77,500	-	**1,152,881**
USD / JPY	3,417	USD	29,358	-	-	**29,358**
GBP / EUR	3	GBP	48	-	-	**48**
USD / NOK	331	USD	6,271	-	-	**6,271**
KWD/EUR	259	KWD	11,580	-	340	**11,920**
GBP/USD	655	USD	3,546	-	-	**3,546**
KWD/USD	213	USD	83,887	7,060	-	**90,947**
JPY/ EUR	1,017	JPY	1,462,351	-	-	**1,462,351**
PLN / EUR	43	PLN	29,239	-	-	**29,239**
Raw material forwards						
Derivative on copper	1,304					
Liabilities	**76,666**					
Net balances	**(60,137)**					

Set out below is a maturity schedule in fair value terms for the contracts in force at 31 December 2017 and 2016:

	2017	2017	2018	2019	Total Fair Value
Total asset 2017	-	-	28,244	347	**28,591**
Total liabilities 2017	-	-	17,722	2,489	**20,211**
Total assets 2016	12,905	3,757	355	-	**17,017**
Total liabilities 2016	80,091	-	-	-	**80,091**

The total fair value of hedging derivatives is classified as a non-current asset or liability if the time remaining to maturity of the hedged item is more than 12 months from the reporting date and as a current asset or liability if the time remaining to maturity of the hedged item is less than 12 months of that date.

The highly probable forecast transactions denominated in foreign currency that have been hedged are expected to materialise within the forecast timeline.

The statement of recognised income and expense discloses the impact of cash flow hedges on equity and transfers to the income statement. During fiscal years, 2017 and 2016 there were no ineffectiveness of note with cash flow hedges, which are recognised in the income statement.

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

The assets and liabilities corresponding to the Concessions of the Sports Complex of Alcobendas and the Sports Complex, parking and public spaces of San Sebastián de los Reyes - La Viña Shopping Center, have been presented as available for sale, in accordance with the decision of the management of the Company to dispose these assets.

The detail of assets classified as held for sale is as follows:

	2017	2016
	Euro thousand	**Euro thousand**
Intangible assets	67,060	67,060
Property, plant and equipment	672	672
Financial fixed assets	194	221
	67,926	**67,953**
Impairment of assets classified as held for sale	(15,584)	(8,914)
Total	**52,342**	**59,039**

Liabilities related to assets classified as held for sale amounted to €21,546k correspond to financial debt as a whole (2016: €24,474k as a percentage of that year's integration).

The Company has performed a profitability analysis of the assets classified as held for sale in order to assess whether there is any indicator of impairment, loss of value or recovery of assets. In that sense, we have evaluated the different external and internal circumstances that could lead to signs of impairment, such as the market value of the asset, changes in business plans, changes in management or in the environment (legal, tax, economic, etc...), evolution of interest rates, obsolescence or physical deterioration.

The review of the evolution of the business plans of the aforementioned assets has shown an impairment of value, because of that, Management has decided to recognise a provision in the amount of €6,670k in 2017 (2016: €8,914k).

a. Analysis to the results of discontinued operations:

	Euro Thousand	
	2017	**2016**
Income	6,300	5,720
Expenses and impairment of assets	(13,032)	(20,405)
Loss before tax	**(6,732)**	**(14,685)**
Income tax	1,683	3,671
Loss of discontinued operations	**(5,049)**	**(11,014)**

The sale operations of these assets have been postponed to 2018 due to the agreement with the buyers.

13. Inventories

This heading includes the following items in the amounts set forth below:

	Euro thousand	
	2017	**2016**
Ongoing and finished construction projects	3,964	4,012
Bid presentation costs	7,981	7,856
	11,945	**11,868**

The current and completed construction projects section includes the cost of various assets (mainly car parks), as described in Note 5, related to assets held for sale.

14. Advances to suppliers

This heading includes the following items in the amounts set forth below:

	Euro thousand	
	2017	**2016**
Group	86,642	181,962
Non Group	55,793	90,977
Advances to suppliers	**142,435**	**272,939**

The breakdown of the Group balances is as follows:

	Euro thousand	
	2017	**2016**
Initec Plantas Industriales, S.A.U.	84,406	181,496
Others	2,235	466
	86,642	**181,962**

15. Cash and cash equivalents

	Euro thousand	
	2017	**2016**
Cash	126,360	177,305
Cash and equivalents	204,607	288,713
	330,967	**466,018**

This heading includes cash (cash in hand and deposits held at call with banks) and cash equivalents (short-term highly-liquid investments readily convertible into specific amounts of cash within a maximum of three months, the value of which is not subject to significant risks).

In 2017, the effective average interest rate earned on short-term deposits at banks was 0% on euro deposits (2016: 0.2%) and 0.9% on US dollar deposits (2016: 0.8%) and the average deposit term was 14 days (2016: 15 days). In addition, during the year the Company has maintained significant balances in Australian dollars (AUD) with an annual return of 2%, in rubles (RUB) to 9%, in Peruvian Soles (PEN) to 3.5%, Turkish liras (TRY) to 9%, Saudi Arabia Riyal (SAR) at 1.5%, Kuwaiti dinars (KWD) at 1.2%, Zloty (PLN) at 1.25% and Malaysian ringgit (MYR) at 2.5%.

Of total cash and cash equivalents at December 31, 2017, €110,586k (2016: €410,515k) relates to balances recorded by the joint ventures and UTEs in which the Company has interests, as indicated in Note 28.

There were no cash or cash equivalents with restricted availability at December 31, 2017 and 2016, although the cash & cash equivalent related to the joint venture agreements is completely allocated to the project of that agreement.

For the purposes of the cash flows statement, the cash balance includes cash and other cash equivalents.

16. Capital and share premium

	Share capital	Share premium	Treasury shares	Total
Balance at January 1, 2016	5,590	8,691	(74,150)	**(59,869)**
Other movements, net	-	-	1,527	**1,527**
Balance at December 31, 2016	5,590	8,691	(72,623)	**(58,342)**
Other movements, net	-	-	(418)	**(418)**
Balance at December 31, 2017	5,590	8,691	(73,041)	**(58,760)**

a) Capital

At December 31, 2017 and 2016, the total number of authorised ordinary shares was 55,896,000, each having a par value of €0.10. All issued shares are fully paid up and carry equal voting and dividend rights. There are no restrictions on the transfer of shares.

The shareholder structure of Técnicas Reunidas, S.A. is as follows:

	2017	2016
Stakeholder	**% Share**	**% Share**
Aragonesas Promoción de Obras y Construcciones, S.L.	5.10%	5.10%
Araltec Corporacion, S.L.U.	31.99%	-
Araltec, S.L.	-	31.99%
FMR L.L.C.	-	3.06%
Franklin Templeton Investment Management Ltd	3.00%	3.00%
Norges Bank	3.02%	-
Ariel Investments , L.L.C.	3.01%	-
Citadel Multi-strategy Equities Master Fund, Ltd.	1.26%	-
Rest of shareholders (including free float)	48.74%	53.02%
Treasury shares	3.88%	3.83%
TOTAL	**100,00%**	**100,00%**

The full amount of the shares of Técnicas Reunidas, S.A. have been listed since June 21, 2006 on the four Spanish Official Stock Exchanges, are listed on the continuous market and form part of the IBEX 35.

b) Share premium

This reserve is freely distributable.

c) Treasury shares

The movements in the caption "Treasury shares" during the years 2017 and 2016 are as follows:

	2017		2016	
	Number of treasury shares	**Amount**	**Number of treasury shares**	**Amount**
Opening balance	**2,140,193**	**72,623**	**2,178,374**	**74,150**
Increases / Purchases	6,983,681	222,283	6,915,202	206,910
Decreases / Sales	(6,956,500)	(221,865)	(6,953,483)	(208,437)
Closing balance	**2,167,374**	**73,041**	**2,140,193**	**72,623**

At December 31, 2017 treasury shares represented 3.88% of the Company's share capital (2016: 3.83%), which represent a total of 2,167,274 shares (2016: 2,140,193 shares), and an average price of €33.70 per share (2016: €33.88 per share).

According to the communication issued by CNMV dated on December 12, 2017 Mr José Llado Fernández Urrutia has a direct-indirect investment of 37.20% in Técnicas Reunidas S.A. throught the entities Araltec Corporación, S.L.U. and Aragonesas Promoción de Obras y Construcciones, S.L.U.

On June 25,2014, the General Shareholders Meeting authorized the acquisition of the maximum number of treasury stock allowed by law for a maximum price of 75% of the acquisition value and a maximum price of 120% of the acquisition value on the transaction date. The authorization was granted for a five-year period as from the date of the resolution.

The Company has signed a liquidity contract with Santander Investment Bolsa, Sociedad de Valores, S.A.U. This contract comes into force at July 11, 2017 adapted to Circular 1/2017 of CNMV dated on April 26, 2017. This contract will operate on the Spanish stock exchanges and the intended purpose will be the increase of liquidity of transactions. The contract term is 1 year. The number of shares related to the account associated with the contract is 74,500 and the amount allocated to the cash account associated with the contract is 2,537,098 euros.

17. Reserves

a) Reserves

	Euro thousand	
	2017	**2016**
- Legal reserve	1,137	1,137
- Capitalization reserve	3,056	3,056
- Other Reserves	419,351	340,006
	423,544	**344,199**

Legal reserve

The legal reserve, which is fully paid in and has been endowed in accordance with article 274 of Spain's Corporate Enterprises Act, may not be distributed to shareholders and may only be used to offset losses should sufficient other reserves not be available. It may also be used to increase share capital under certain circumstances.

Capitalization reserve

The Capitalization Reserve is provided in accordance with article 25 of Law 27/2014 on Corporate Income Tax. It is an unavailable reserve for 5 years according to the conditions established by that article.

Other reserves

This reserve is freely distributable.

18. Profit for the year

a) Proposed distribution of profit

The proposed distribution of the results for 2017 and 2016 to be submitted to the General Shareholders' Meeting is as follows:

	2017	2016
Basis of appropriation		
Profit for the year	187,333	158,741
	187,333	**158,741**
Appropriation to:		
Other Reserves	151,481	83,741
Dividends	35,852	75,000
	187,333	**158,741**

b) <u>Interim dividend</u>

As agreed by the Board of Directors on December 21, 2017, the Company paid an interim dividend totalling €35,852k on January 18, 2018.

The composition of the dividend is broken down as follows:

In 2017: the interin dividend totalling €35,852k is:

- €35,852k as an interin dividend agreed by the Board of Directors on December 21, 2017, which was paid on January 18, 2018.

During 2016, the dividend totalling €75,000k is formed as follows:

- €35,852k as an interin dividend agreed by the Board of Directors on December 28, 2016, which was paid on January 19, 2017.
- €39,148k, as a complement dividend proposed for the approval of the Board Directors which approves the 2016 annual accounts.

In compliance with article 277 of the Spanish Corporate Enterprises Act, as amended, enacted by Legislative Royal Decree 1/2010 of July 2, 2010, set forth below are the forecast accounting and cash statements as of the dates of payment of the interim dividends:

	2017	**2016**
Estimated profit for the year	91,000	184,000
Estimated income tax	(30,000)	(50,000)
Maximum possible payout	**61,000**	**134,000**
Proposed payout	(35,852)	(35,852)
Surplus	**25,148**	**98,148**
Cash balance prior to payout	220,000	420,000
Interim dividend	(35,852)	(35,852)
Cash surplus	**164,148**	**384,148**

19. Translation differences

	Euro thousand	
	2017	**2016**
Accumulated translation difference	(10,870)	(5,303)

The breakdown of the cumulative translation difference by branch at the 2017 and 2016 year ends is as follows:

	Euro thousand	
	2017	2016
Abu Dhabi branch	347	(5,435)
Algeria branch	(2,577)	20
Australia branch	(5,259)	(707)
Ankara branch	2,088	1,455
Moscow branch	(2,199)	(1,740)
Kuwait branch	(3,451)	699
Other	181	405
	(10,870)	**(5,303)**

20. Provisions

	Euro thousand	
	2017	2016
Long-term risk and expenses provisions	76,060	93,428
Non- current	**76,060**	**93,428**
Other short-term provisions	941	898
Current	**941**	**898**

The movement of other provisions in 2017 and 2016 has been:

	Euro thousand	
	2017	2016
Initial balance	94,326	85,965
Endowments	4,428	25,478
Transfers	(860)	(13,747)
Aplications/Reversals	(20,893)	(3,369)
Final balance	**77,001**	**94,326**

The endowments of the year 2017 are mainly due to provisions to cover negative equity of subsidiaries (Note 8).

Provisions for non-current risk and expenses

This caption mainly includes provisions in order to cover negative equity of subsidiaries for €42,949k (2016: €61,437k) (Note 8), as well as other long-term risk and expenses.

Provisions for current risk and expenses

Correspond to provisions created to cover other current risk and expenses.

21. Long-Term and Short-Term Debt

	Euro thousand	
	2017	**2016**
Debt to credit institutions	88,136	151,040
Derivatives (Note 11)	2,489	3,843
Other financial liabilities	4,119	4,211
Non-current borrowings	**94,744**	**159,094**
Debt to credit institutions	288,295	64,837
Derivatives (Note 11)	18,633	72,823
Other financial liabilities	36,266	35,994
Current borrowings	**343,194**	**173,654**

The carrying amount of borrowings (both current and non-current) approximates fair value.

a) Debt to credit institutions

The carrying amount is close to the fair value. The payables are pledged to their Euribor with review periods of up to 6 months. There are loans in the amount of €21,546k (2016: €24,474k) to guarantee concession assets (Note 12) that are registered as hold for sale.

The maturity schedule for the contracts in force at December 31, 2017 and 2016 is presented below:

	2017	**2018**	**2019 and over**	**Total**
2017	-	288,295	88,136	**376,431**
2016	64,837	151,040	-	**215,877**

The carrying amounts of debt to credit institutions are denominated in euro, with carried average effective interest rates at year-end of 0.65% (2016: 0.80%).

The carrying amount of borrowings (both current and non-current) approximates its fair value since the impact of discounting the cash flows would not be material.

The Company has the following undrawn credit lines:

Floating rate:	Euro thousand	
	2017	**2016**
– Maturity date - less than one year	267,000	169,644
– Maturity date - more than one year	514,000	318,960
	781,244	**488,604**

b) Other financial liabilities (current)

This heading primarily reflects the interin dividend to be paid amounted to €35,851k (2016: €35,852k) approved by the Board of Directors (Note 18).

22. Borrowings from related parties

	Euro thousand	
	2017	2016
Group companies	353,865	88,766
Associates	3,732	9,377
	357,597	**98,143**

The breakdown of the items comprising this heading is as follows:

	Euro thousand	
	2017	2016
Engineering services	188,290	6,465
Current loans	165,575	18,134
Group companies	**353,865**	**24,599**
Engineering services	-	800
Integration of UTEs	3,732	25,818
Associates	**3,732**	**26,618**

In 2017, the loans with group companies carried an average interest rate of Euribor + 1% (2016: Euribor + 1.5%).

23. Trade and other payables

	Euro thousand	
	2017	2016
Trade payables	1,490,350	1,695,329
Trade payables, related parties	253,178	225,096
Suppliers Retention	55,709	37,853
Sundry payables	6,340	12,396
Employee benefit obligations payable	3,482	2,536
Other taxes payable	29,233	21,450
Customer prepayments	117,867	470,395
	1,956,157	**2,465,595**

Discounting has no significant effect on the fair values of trade and other payables.

The nominal values of these payables are considered a good proxy of their fair values.

The detail of Trade Payables, related parties is as follows:

	Euro thousand	
	2017	2016
Initec Plantas Industriales, S.A.	226,617	200,315
Initec Infraestructuras, S.A.	10,506	8,328
Técnicas Reunidas Internacional, S.A.	2,381	2,097
Other	13,673	14,355
	253,178	**225,096**

The carrying amounts of trade payables are denominated in the following currencies:

	Euro thousand	
	2017	2016
Dollar US	158,824	104,160
Other currencies	92,330	67,627
	251,154	**171,787**

Information on the average period of payment to suppliers. Third additional provision, "Duty of information" of Law 15/2010 of 5 July (In accordance with the new wording given by the second final provision of Law 31/2014 on Spanish Corporates Act).

As stipulated in the law of reference and in the resolution of January 29, 2017, the following information is provided on the weighted average days to pay suppliers:

	2017	2016
	Days	**Days**
Weighted average days to pay suppliers	73	69
Ratio of payments made	72	71
Ratio of payments pending	79	60

	Amount (Euro thousand)	**Amount (Euro thousand)**
Total payments made	966,144	1,108,335
Total payments pending	195,100	252,091

The Company is complying with legally established deadlines with some minor delays, due to the fact that the number of days of payment and the number of days pending payment is used as the date for the calculation, the period from receipt of the invoice, because it is difficult to establish the date of receipt of the goods or provision of services. Therefore, in some cases, the time from receipt of the invoice to the payment is slightly higher because some of the requirements established in the order to proceed with the payment (receipt of collateral, review of the matter) and due to that fact, may be a slight delay in payment.

The calculation of the data of the previous table has been carried out according to the established in the resolution of January 29, 2016 and only includes the information corresponding to the Spanish entities. For the purposes of this note, the concept of Trade Payables includes the items of suppliers and various creditors for debts with suppliers of goods or services included in the scope of regulation in terms of legal payment terms.

24. Income tax and tax matters

On 30 September 1993, the Spanish tax authorities authorised the following companies to apply the tax consolidation regime: Técnicas Reunidas, S.A., Técnicas Reunidas Internacional, S.A., Termotécnica, S.A., Técnicas Reunidas Construcciones y Montajes, S.A. and Técnicas Reunidas Ecología, S.A. Subsequently, in 1994, Técnicas Siderúrgicas, S.A., Española de Investigación y Desarrollo, S.A., and Técnicas Reunidas Proyectos Internacionales, S.A., were included in the tax consolidation regime. The tax group was enlarged in 1998 to include Técnicas Reunidas Metalúrgicas, S.A. and, in 1999, Layar, S.A., Layar Castilla, S.A. and Layar Real Reserva, S.A. In 2003, Eurocontrol, S.A. and ReciclAguilar, S.A. were included and in 2005 Initec Plantas Industriales, S.A. and Initec Infraestructuras, S.A. In 2007, Layar Castilla, S.A. left the tax group. In 2015 Eurocontrol International Services, S.L. and Euromody International Services, S.L. were added. In 2016 Heymo Ingenieria, S.A.U. were added, and in 2017, has been added Deportes Valdavia, S.L., Valdavia, S.L., Valdavia, Gym, S.L. and Valdavia Padel, S.L.

The reconciliation of income and expenses to taxable income for 2017 is set forth below:

The breakdown of income tax expense is as follows:

	Income statement		Euro thousand 2017
Recognised income and expense	187,333		
	Increases	**Decreases**	
Income tax expense	32,652	-	**32,652**
Permanent differences	32,773	(107,917)	**(75,144)**
Temporary differences	89,839	(54,327)	**35,512**
Taxable income (tax result)			**180,353**

	Euro thousand	
	2017	**2016**
Income tax expense	30,099	56,158
Deferred tax	4,235	(11,868)
Other adjustment	-	891
	34,334	**45,181**

The additions attributable to permanent differences correspond to the following items:

	Euro thousand	
	2017	**2016**
Reversal of tax-deduced provisions	5,322	5,322
Non-deductible expenses	723	851
Double taxation dividend deduction (article 32)	26,728	15,169
	32,773	**21,342**

The decreases attributable to permanent differences correspond to the following items:

	Euro thousand	
	2017	**2016**
Results generated abroad	107,710	66,834
Deduction for technology transfer	-	15,155
Income to reserves	-	18,718
Capitalization Reserve	-	3,056
Income tax – discontinued operations	-	3,671
Reverse of provisions and others	207	1,934
	107,917	**109,368**

Deferred tax	Euro thousand	
	2017	**2016**
Deferred tax assets		
- to be recovered after more than 12 months	69,267	63,541
- to be recovered within 12 months	-	-
	69,267	**63,541**
Pasivos por impuestos diferidos		
- to be recovered after more than 12 months	16,756	7,262
- to be recovered within 12 months	-	-
	16,756	**7,262**

The movements in deferred income tax assets and liabilities during the year are as follows:

	2017		2016	
	Asset	**Liabilities**	**Asset**	**Liabilities**
At January 1	**63,541**	**7,262**	**60,547**	**164**
Reversion/applications	(6,473)	(6,138)	(17,306)	-
Endowments	12,199	15,632	12,592	7,098
Reclasifications	-	-	7,708	-
At December 31	**69,267**	**16,756**	**63,541**	**7,262**

The deferred taxes relate to the following items:

Deferred tax assets	Euro thousand	
	2017	**2016**
- Hedging reserve	-	6,414
- Tax losses carried forward related to Permanent Establishments	38,044	28,836
-Portfolio provision activation	11,080	11,334
- Provisions related to investment	15,505	13,877
- Amortization	742	852
- Concessions	3,896	2,228
	69,267	**63.541**

Deferred tax liabilities	**Euro thousand**	
	2017	**2016**
Hedging reserve	5,691	164
Taxes related to Permanent Establishments	11,065	7,098
	16,756	**7,262**

There are no tax losses pending to apply at year-end 2017 and 2016.

Deferred tax assets in respect of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the losses can be utilised.

On June 28, 2014 the tax agency informed Técnicas Reunidas, S.A., as the Tax Group's parent, of the start of inspection proceedings in connection with corporate income tax for the years 2008-2011.

On June 15, 2015 the Company received a proposed assessment in the amount of €136.2 million plus interest, which it was signed in disagreement. The assessment is based on the tax authorities' disagreement with the principles used by the Group to support its transfer pricing policies.

On July 10, 2016, the proposed assessment was appealed to the tax authorities, which rejected the appeal. The Company presented an appeal in Administrative Litigation against the aforementioned resolution, before the TEAC, on September 15, 2016. The TEAC's record presentation of the file took place on September 23, 2017 and on October 7, 2017, the Company submitted a written complaint for the correction of the file, a fact that TEAC admits on February 1, 2017.

On July 17, 2017, it once again shows the case file and on July 31 the allegations were presented.

In the opinion of the Company's management and tax advisors, it may be concluded that it is not probable that the amount of the assessments currently with the TEAC will have to be settled. Management believes that there are technical grounds for the criteria of Técnicas Reunidas to be fully upheld and such possibility is higher at the Administrative Contentious phase. The opinion of Técnicas Reunidas is based on the Agreed Assessments signed in 2010 that recognised the right to the exemption of the UTES with which the Técnicas Reunidas Group operates abroad and in addition, defined the intra-group transaction model through which Técnicas Reunidas, along with the support of its tax advisors, developed its new transfer pricing model. In addition to the technical grounds upholding this line of argument, it is highly relevant to take into consideration that the model currently inspected has been prepared taking as a basis the matters established by the tax authorities, included in the previous agreed assessments signed with the tax agency in 2010

Consequently, management believes there is no need to recognise any liability whatsoever.

As of the date of these Annual Accounts, the Company has not made any payments on the balances shown in the disputed tax assessments. Guarantees in the amount of €136.2 million euro for principal and €28.6 million in late interest were provided.

On July 3, 2017, the tax inspection started for the years 2012 to 2014, and 2014 to 2015 for the remaining direct taxes.

In 2017, the Company received a notification from the National Court, rejecting our appeals concerning the tax assessments for the years 2004 to 2007. Although Company management has filed an appeal for reversal with the Constitutional Court, the relevant amounts have been recognised

In addition to the aforementioned years, the following taxes for the years mentioned below for the Company remain open for inspection:

Tax	Years
Corporate income tax	2015 to 2016
Value added tax	2016 to 2017
Withholding tax	2016 to 2017
Other taxes	Last four years

Other information

Spanish Law 16/2012 of December 27, 2012, enacting several fiscal measures designed to further the consolidation of the public finances and to shore up economic activity, affords corporate income tax payers the option of voluntarily restating the value of certain assets (property, plant and equipment and investment properties).

At the date of authorising these annual accounts for issue, the directors had not taken any decision regarding the potential restatement of any of the Company's assets.

25. Revenue and expense

a) Revenue

The geographic breakdown of the Company's revenue in 2017 and 2016 is as follows:

Market	**Euro thousand**	
	2017	**2016**
Spain	53,483	41,396
European Union	329,797	217,349
OECD (excl. Spain and EU)	128,896	382,680
Other	2,230,216	2,335,679
	2,742,392	**2,977,104**

The revenue split by operating segment was as follows:

Business	**Euro thousand**	
	2017	**2016**
Oil & Gas	2,260,975	2,656,256
Power	433,934	261,912
Other	47,483	28,936
Total	**2,742,392**	**2,977,104**

In the fiscal years 2017 and 2016 the Company did not recognise any significant penalty or bonus for delays, advances or any other item.

b) Foreign currency transactions

The balances corresponding to transactions denominated in foreign currency are as follows:

	Euro thousand	
	2017	2016
Sales	2,352,476	1,808,366
Purchases	1,474,720	1,628,518
Services received	68,731	161,739

c)Employee benefit expense

	Euro thousand	
	2017	2016
Wages and salaries	241,489	242,115
Termination benefits	1,949	2,316
Staff welfare expenses	49,951	52,563
Charge for employee benefit obligations	1,184	(984)
	294,573	**296,010**

The average number of employees during the year distributed by categories is as follows:

	2017	2016
Directors and senior management	12	13
Graduates, diploma holders and administrative staff	3,357	3,563
Skilled workers	27	32
Sales staff	25	24
	3,421	**3,632**

The breakdown of the Company's year-end headcount by gender is as follows:

			2017			2016
	Men	Women	Total	Men	Women	Total
Directors and senior management	10	2	12	11	2	13
Graduates, diploma holders and administrative staff	2,143	1,145	3,288	2,270	1,204	3,474
Skilled workers	25	1	26	26	1	27
Sales staff	18	9	27	14	9	23
	2,196	**1,157**	**3,353**	**2,321**	**1,216**	**3,537**

Figures above include 283 subcontracted employees (2016: 447 employees).

During 2017, the number of persons employed with a disability greater than or equal to 33% has been 35, in the category of graduates, diploma holders and administrative staff (2016: 19).

d) Other operating expenses

The breakdown of the income statement heading is as follows:

	Euro thousand	
	2017	2016
Services	252,025	535,220
Rent and fees	54,214	38,868
Independent professional services	36,775	37,106
Transport expense	14,184	10,798
Repairs and maintenance	5,940	5,238
Insurance premiums	5,787	8,144
Banking and similar services	23,804	24,874
Other	2,808	2,809
External services	**395,537**	**663,057**
Taxes other than income tax	4,735	3,086
Losses on impairment of and change for the trade receivables provisions	(15,410)	4,191
Other operating expenses	2,203	1,062
	387,065	**671,396**

26. Finance income and finance cost

	Euro thousand	
	2017	**2016**
Finance income:		
From equity investments:		
In group companies and associates (Note 8)	69,621	61,458
From marketable securities and other financial instruments:		
In group companies and associates	14,707	10,764
In third parties	3,239	4,154
	87,567	**76,376**
Finance cost:		
Borrowings from related parties	(1,679)	(2,038)
Third-party borrowings	(7,503)	(2,803)
	(9,182)	**(4,841)**
Change in fair value of financial instruments:		
Held for trading and other securities	2,665	836
	2,665	**836**
Exchange differences	**(32,563)**	**14,422**
Impairment and result from disposals of financial instruments		
Impairment charges and losses (Note 8)	(7,963)	(10,524)
Other provisions for impairment	-	(2,500)
	(7,963)	**(13,024)**
Net Finance income	**40,525**	**73,769**

27. Contingencies

a) Contingent liabilities

The Company has contingent liabilities relating to bank sureties and other guarantees granted during the ordinary course of business. The contingent liabilities are not expected to give rise to additional material liabilities other than those already recorded, as disclosed in Note 20. In the ordinary course of the Company's activities, as is common practice with engineering and construction companies, the Company extended guarantees to third parties totalling €3,272,077 (2016: €3,317,962k) in order to duly guarantee contract delivery.

In accordance with the general terms of contracting, the Company is required to provide technical guarantees for the execution of works, in cash or in the form of bank guarantees, which must be upheld for a specified period.

As mentioned in Note 12, the financial debt for the amount of €21,546k (2016: €24,474k) finances the construction of the concessions; of these loans amounts, €20,345k are guaranteed with the aforementioned concession assets.

In relation to the inspections referred to in note 24, guarantees have been submitted to the Tax Administration for an amount of 136.2 million euro of quota and 28.6 million euro of default interest.

Concerning the most significant dispute relating to the Sines project, in Portugal, the arbitration process has continued during the present year, through hearings and allegations between the parties about the claims sent between Técnicas Reunidas and the customer, mainly in connection with each parties' responsibilities for the various delays. Although the customer has claimed an amount for production losses triggered by misconduct, the plant was delivered to the customer's satisfaction, paid in full and the customer returned the completion bonds and guarantees in their entirety. Therefore, the Company's management and legal advisors consider that the outcome is unlikely to trigger a significant additional liability for Técnicas Reunidas.

The Entity is party to certain legal proceedings arising in the ordinary course of its business operations (mainly disputes with customers, suppliers, employees or government/tax authorities). The Group's legal advisors believe that the outcome of these proceedings will not have a material impact on its financial situation.

b) Commitments

Capital commitments

As of the balance sheet date, there are no commitments to make significant asset purchases.

Operating lease commitments

The Company rents several premises under irrevocable operating lease agreements (Note 6). These leases have variable terms, segment clauses and renewal rights. The Company is required to provide six months' termination notice on these agreements.

Minimum future payments on irrevocable operating leases are as follows:

	2017	**2016**
Less than 1 year	19,961	19,258
Between 1 and 5 years	24,908	30,971
Over 5 years	-	-

Purchase commitments (suppliers and subcontractors)

The Company has payment commitments to its suppliers in addition to those recognised in trade payables as a result of orders that are still in the drafting or construction phase and cannot be invoiced until the scheduled payment milestones are reached. This is offset by the fact that the Company in turn invoices its customers in accordance with similar milestones to those in place with its suppliers.

28. Temporary joint ventures (UTEs) and consortiums

The Company has interests in the UTEs and consortiums listed in Exhibit I. The amounts set out below represent its percentage interest in the assets, liabilities, revenues and expenses of these UTEs. The following amounts are recognised in the balance sheet and income statement:

Assets:	**2017**	**2016**
Non-current assets	34,423	18,322
Current assets	1,165,051	1,046,222
	1,199,474	**1,064,544**
Liabilities:		
Non-current liabilities	10,832	7,638
Current liabilities	1,106,978	1,069,340
	1,117,810	**1,076,978**
Net assets	**81,665**	**(12,433)**
Revenue	1,843,208	2,021,341
Expenses	(1,768,861)	(2,008,478)
Profit after tax	**74,347**	**12,863**

There are no contingent liabilities in relation to the Company's shareholdings in the UTEs, nor contingent liabilities in the UTEs and consortiums themselves.

29. Board of Directors and senior management remuneration

a) Board of Directors remuneration

There follows information on total compensation paid to members of the Company's Board of Directors for the years ended December 31, 2017 and 2016:

- Board meeting attendance fees received by all board members: €1,611k (2016:€1,493k).
- Wages and salaries: €2,750k (2016: €2,438k).
- Insurance premiums and pension plans: €38k (2016: €31k).
- Services rendered to the Company: €306k (2016: €326k).
- Loans: €135k (2016: €0k).

In addition, the Group has paid €135k and €110k in 2017 and 2016 respectively for the civil insurance policy of the Directors.

b) Senior management compensation

Total compensation paid in 2017 to key management personnel was €3,066k (2016: €4,359k).

Advances: During the year 2017, advances were granted to key management personnel for €290k (2016:€0k).

c) Situations of conflict of interest of the directors

In the duty to avoid situations of conflict with the interest of the Company, during the year the directors who have held positions in the Board of Directors have fulfilled the obligations set forth in article 228 of the consolidated text of the Capital Companies Act. Likewise, both they and the persons related to them, have abstained from incurring the cases of conflict of interest provided for in article 229 of said law, except in cases in which the corresponding authorization has been obtained.

The direct or indirect shareholding that both directors and persons linked to them have in the capital of a Company with the same, analogous or complementary type of activity to which it constitutes the corporate purpose is shown below:

– Mr. José Lladó Fernández-Urrutia is President of Técnicas Reunidas Internacional, S.A. and Joint Administrator at Técnicas Reunidas Proyectos Internacionales, S.A.

- Mr. Juan Lladó Arburúa is a non-executive Director of Initec Plantas Industriales, S.A.U., Initec Infraestructuras, S.A.U., Empresarios Agrupados Internacional, S.A., Técnicas Reunidas Internacional, S.A. Española de Investigación y Desarrollo, S.A. and Eurocontrol, S.A. He is also member of the directors' committee of Empresarios Agrupados A.I.E. and is vice-chairman of Técnicas Reunidas Internacional, S.A. and Española de Investigación y Desarrollo, S.A. and Joint Administrator at Tecnicas Reunidas Proyectos Internacionales, S.A.

30. Other related-party transactions

As indicated in Note 1, the Company is the parent Company of a Group of companies. Related party transactions are as follows:

a) Transactions with the Company's core shareholders

The Company did not carry out any transactions with primary shareholders in 2017 or 2016.

b) Transactions with Company directors and officers and their related parties

The Company did not carry out any transactions with its directors in either 2017 or 2016, in addition to those detailed in note 29.a.

Note 29 provides details of the compensation paid to the directors of Técnicas Reunidas, S.A. and its senior officers.

c) Transactions with Group companies, jointly-controlled entities and associates

The table below details aggregate transactions with the Group companies, jointly-controlled entities and associates listed in Note 8:

2017	Group companies	Jointly-controlled entities and associates
Services received	314,779	6,151
Finance costs	1,654	-
Total expenses	**316,433**	**6,151**
Services rendered	95,910	7,518
Finance income	14,455	-
Dividends received (Note 26)	69,449	172
Total revenue	**179,814**	**7,690**

The services received and rendered are derived from the normal operations of the Company's business and have been performed at arm´s length basis:

2016	Group companies	Jointly-controlled entities and associates
Services received	567,080	7,269
Finance costs	2,044	-
Total expenses	**569,123**	**7,269**
Services rendered	94,270	11,716
Finance income	10,542	-
Dividends received (Note 26)	61,458	-
Total revenue	**166,270**	**11,716**

In addition, there were no real estate purchase-sale transactions with Group companies in 2017 or 2016.

31. Environmental disclosures

Given the activities in which the Group companies are involved, it has no expenses, assets, provisions or contingencies that could be significant in relation to its equity, financial position or performance. Therefore, no specific disclosures relating to environmental issues are included in these notes to the annual accounts.

32. Events after the end of the reporting period

Between the balance sheet close and the date the accompanying annual accounts were authorised for issue no significant events have occurred that have not been recognised in these financial statements.

33. Audit fees

The fees accrued for services engaged by the Company from its auditors and other audit firms in 2017 are detailed below:

	Services provided by auditor		
	2017		2016
	PwC	**Deloitte**	**PwC**
Audit services	221	157	270
Other work required under prevailing regulations	210	42	264
Other services provided by auditor	40	-	31
Other services provided by the auditor´s network	93	60	20
	564	**259**	**585**

EXHIBIT I – TEMPORARY JOINT VENTURES (UTEs) AND CONSORTIUMS IN WHICH THE COMPANY HAS SHAREHOLDINGS 2017

The temporary joint ventures (UTEs) and consortiums included in these annual accounts are the following:

Year 2017

Name	Activity	% Interest.
TR Abu Dhabi BRANCH	CONSTRUCTION AND COMMISSIONING SUPERVISION	100%
TR TURQUÍA BOTAS	CONSTRUCTION AND COMMISSIONING SUPERVISION	100%
TR AUSTRALIA	CONSTRUCTION AND COMMISSIONING SUPERVISION	100%
TR BRANCH VOLGOGRADO	CONSTRUCTION AND COMMISSIONING SUPERVISION	100%
TReunidas Branch Argelia	ENGINEERING AND PROCURAMENTAL SERVICES	100%
TR SA ODDZIAL W POLSCE	ENGINEERING AND PROCURAMENTAL SERVICES	100%
TR EP UTE OPTARA BELGIUM	ENGINEERING PROJECT AND EXECUTION SERVICES	100%
EP BANGLADESH	ENGINEERING PROJECT AND EXECUTION SERVICES	100%
EP JORDANIA	ENGINEERING PROJECT AND EXECUTION SERVICES	100%
TR KUWAIT BRANCH	ENGINEERING AND PROCURAMENTAL SERVICES	100%
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UTE TR-IPI TANQUE MEJILLO	ENGINEERING AND PROCURAMENTAL SERVICES	15%
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UTE PERLA	ENGINEERING AND PROCURAMENTAL SERVICES	15%
UTE VOLGOGRAD	ENGINEERING AND PROCURAMENTAL SERVICES	15%
UTE INTEGRATED PROJECT	ENGINEERING AND PROCURAMENTAL SERVICES	65%
UTE TR JRTP JAZAN	ENGINEERING AND PROCURAMENTAL SERVICES	85%
UTE TR TALARA	ENGINEERING AND PROCURAMENTAL SERVICES	85%
UTE TR OPTARA	ENGINEERING AND PROCURAMENTAL SERVICES	85%
UTE STURGEON	ENGINEERING AND PROCURAMENTAL SERVICES	15%
UTE TR INTEGRATED GAS	ENGINEERING AND PROCURAMENTAL SERVICES	85%
UTE FORT HILLS	ENGINEERING AND PROCURAMENTAL SERVICES	50%
UTE TR MINATITLAN	ENGINEERING AND PROCURAMENTAL SERVICES	75%
UTE IGD	ENGINEERING AND PROCURAMENTAL SERVICES	15%
UTE TR ETO	ENGINEERING AND PROCURAMENTAL SERVICES	85%
UTE FAHDILI	ENGINEERING AND PROCURAMENTAL SERVICES	50%
UTE TR NAPHTHA RT	ENGINEERING AND PROCURAMENTAL SERVICES	70%

Name	Activity	% Interest.
UTE Damietta LNG	ENGINEERING AND PROCURAMENTAL SERVICES	85%
UTE RAMBLA	ENGINEERING AND PROCURAMENTAL SERVICES	40%
UTE Villamartin	ENGINEERING AND PROCURAMENTAL SERVICES	50%
UTE Puerto de Barcelona	ENGINEERING AND PROCURAMENTAL SERVICES	50%
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UTE ELORRIO-ELORRIO	ENGINEERING AND PROCURAMENTAL SERVICES	50%
SAMSUNG-TR JOINT VENTURE	ENGINEERING AND PROCURAMENTAL SERVICES	29%
TR OMAN BRANCH	ENGINEERING AND PROCURAMENTAL SERVICES	100%
UTE HPP Gepesa	ENGINEERING AND PROCURAMENTAL SERVICES	60%
UTE TSGI	ENGINEERING AND PROCURAMENTAL SERVICES	33%
TR MOSCU BRANCH	ENGINEERING AND PROCURAMENTAL SERVICES	100%
TECNICAS REUNIDAS FR BR.	ENGINEERING AND PROCURAMENTAL SERVICES	100%
TR KHABAROVSK BRANCH	ENGINEERING AND PROCURAMENTAL SERVICES	100%
JV DARSAIT	ENGINEERING AND PROCURAMENTAL SERVICES	50%
JV SOHAR	ENGINEERING AND PROCURAMENTAL SERVICES	50%
TR QATAR	ENGINEERING AND PROCURAMENTAL SERVICES	100%
JV RAILWAY	ENGINEERING PROJECT AND EXECUTION SERVICES	34%
JV KUWAIT	ENGINEERING AND PROCURAMENTAL SERVICES	50%
TRSA INDIA 33059	ENGINEERING AND PROCURAMENTAL SERVICES	100%
TRSA INDIA 33065	ENGINEERING AND PROCURAMENTAL SERVICES	100%

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DIRECTORS´ REPORT FOR 2017

Contents:

1. Overview of the business

Técnicas Reunidas overcame several difficulties in 2017. Although the fundamentals for investments in the oil and gas sector remain solid in the medium and long-term, the industry has faced an unprecedented crisis since 2014, which has resulted in the largest reduction in investments over the past thirty years. The depth of this crisis has surprised the industry in 2017, and affected even the areas that are most resistant to oil price volatility, such as refining, natural gas and petrochemicals, which are the primary business areas for Técnicas Reunidas. Given this crisis scenario, customers rigorously contain budgets by applying more demanding management of projects through the optimization of cost savings and their cash positions.

At the beginning of 2017, the outlook for the awarding of new projects for Técnicas Reunidas was very positive, both in Latin America and in the Middle East. However, the Company was affected by the cancellation of a large project in Latin America with a value of approximately €1 billion. Furthermore, during the second half of the year there was an unexpected delay in the start of two projects in the Middle East and the extension of the stoppage affecting a third project in Mexico valued at approximately $4,000 million. This meant that no significant project was started in 2017.

However, although project awards were late in coming, the volume in 2017 was one of the best years as Group TR successfully obtained contracts valued at 4,600 million. Once again, Técnicas Reunidas was able to differentiate itself from its competitors and demonstrate its capacity for resistance, supported by a product diversification strategy and the good relationships maintained with customers. Contracted projects in 2017 include energy production businesses in Latin America (Mexico), refining in the Middle East (Oman and Bahrain) and in Azerbaijan and natural gas in the Middle Beast (Saudi Arabia).

Sales in 2017 thus grew €2,724 million, which is a record for the Company. Operating profits amounted to €187 million, €55 million higher than in 2016.

Técnicas Reunidas had 3,353 employees at December 31, 2017, which is an adequate level of resources to satisfactorily execute the portfolio of projects in progress.

Shares in Técnicas Reunidas followed a trend during the first half of 2017 that is similar to that of many of its European competitors. The delay in the awarding of projects and the difficulties in the business environment were present in the industry, as was the corresponding effect of oil price behaviour, which again surprised the industry with a downward move in the middle of the year when the United States production data became known and doubts appeared as to OPEC's decision to cut production at the end of 2016. During the first half of the year shares fell by 11%, which was less than that seen by many of the Company´s competitors.

During the second half of the year, after the delays in the Middle East projects were confirmed, the Group reported an adjustment to its profit outlook and the shares fell by 17% on the date that report was published, which resulted in an increase in the losses generated during the year. Benefiting from the general upward movement in the industry relating to the spike in Brent during the final two months of the year and due to the confidence of investors in the perspectives for TR and its future opportunities, the Company[s shares recovered 14% over the final 6 weeks of the year. The oil services industry generally ended the year with positive investor sentiment, supported by the good outlook for oil demand and the new agreement reached by OPEC at the end of November to extend the cuts in production until the end of 2018 to thus balance market supply. Compared with the benchmark index, the Ibex 35, shares in Técnicas Reunidas were at some distance as the total loss was 30% in 2017, compared to the 7% increase shown by that index.

Following the trend for shareholder remuneration policy over the past few years, in 2017 the Company distributed the same dividend as in the preceding year. The dividend distribution policy is a firm commitment on the part of the Company, and its desire is to maintain it in the future. The executive team thus maintains confidence in the fund generating nature of the business and the embedded profitability of the projects in its portfolio. In 2017 the Company distributed a total of €75 million in dividends charged against the net profit for 2016, which is equivalent to €1.395 per share.

Oil and gas

There was a mix of events in 2017 in terms of the effect that they may have on the oil and gas industry. The limitations on access to financing that have been in place since the start of the global financial crisis continue and uncertainty remains regarding the risk of overproduction of oil. This threat of overproduction is related to the sharp increase of shale oil production in the United States, which has shown the ability to adapt to lower oil prices and lowering the costs of that technology, together with the reactivation of the Iranian market. These events have mitigated the positive effect that the agreements regarding production level cuts reached by OPEC could have had. However, there are several points that favourably support the perspectives for the industry, such as estimates for global economic growth, which has been surprisingly benefited by an improvement in OECD countries in addition to emerging economies, which consequently has a positive impact on global demand for oil. In 2017 the International Energy Agency and OPEC revised their demand estimates for 2017 and 2018 upwards, reflecting growth not seen since before the start of the crisis.

In the longer term, the outlooks of these organizations show sustained growth in demand over the coming 26 years, despite the increase in investments in renewable energies. The International Energy Agency's World Energy Outlook 2017 estimates a total investment of $60,085 billion in energy infrastructure over the coming 23 years, which is an increase over the average annual investment of $2,504 billion. The International Energy Agency estimates a total investment of more than $20,600 billion in the oil and gas sector between 2017 and 2040, which represents 34% of the overall estimated investment in global energy.

Técnicas Reunidas studies and deeply analyses market conditions at any given moment, identifying and selecting the opportunities that generate higher value for the continuity of its business. Técnicas Reunidas currently sees a very positive outlook due to the solid investment cycle that is present in the industry and the strength of its industrial position over the past few years.

The opportunities offered by the Company's main division, which includes oil, gas and petrochemical businesses, are based on the following: growth in demand in emerging economies, the optimization of the profitability of existing refineries, the adaptation of oil derivative products to changes in environmental legislation, the growing role of natural gas in the global energy matrix, the impact that the growing urbanization of the population has on demand for petrochemical products as well as the motorization of emerging economies.

In 2017 TR successfully bid for three new refinery contracts with DRPIC, BAPCO and SOCAR, located in the Middle Beast and Azerbaijan markets, which provides it with new customers and regions.

Contract awards:

- In August Técnicas Reunidas was selected by DRPIC to execute the process unit project at the new refinery in Duqm (Oman).

  This project forms part of the Omani government's plans to develop the Special Economic Zone in Duqm, which include the construction of a grassroots refinery in which an investment of up to $15,000 million is expected to be made over the coming 15 years to develop the infrastructure at the port and surrounding areas and to build one of the largest industrial zones of this type in the Middle East, in which the refinery will be the key part for the development of this industrial zone.

The contract was awarded on a turnkey basis to the international consortium consisting of Técnicas Reunidas (Spain) and Daewoo Engineering and Construction (South Korea) for approximately $2,750 million and will have a term of 47 months. This project is the largest of the 3 that make up the construction of the new refinery and it includes all of the processing units.

The scope of this contract includes engineering, supply, construction and launch of the refining units: crude oil distillation unit (230,000 bpsd), vacuum distillation unit (114,000 bpsd), hydrocracker unit (74,000 bpsd), delayed coker unit (52,000 bpsd), kerosene hydrotreatment units (40,500 bpsd), diesel hydrosulfuration units (83,500 bpsd each), LPG treatment units (2 x 12,500 bpsd), hydrogen production units (2x 126,500 Nm3/d), saturated gas unit (6,500 mT/d), acidic water treatment units (2 x 44 mT/d) and sulphur recovery units (3x355 mT/d).

The project will mainly be developed at the Técnicas Reunidas offices in Madrid and apart from being the leader of the Joint Venture, it is a majority shareholder with a 65% interest.

Duqm Refinery and Petrochemical Industries Company (DRPIC) is a Joint Venture between the public company Oman Oil Company (OOC) and Kuwait Petroleum International (KPI), an international subsidiary of the State oil consortium Kuwait Petroleum Corporation (KPC).

- At the end of 2017 Técnicas Reunidas was selected by the state oil company in the Republic of Azerbaijan (SOCAR) to execute the modernization and reconstruction of the Heydar Aliyev refinery in Bakú, Azerbaijan.

  This project is part of the development plan that SOCAR is currently carrying out at the Heydar Aliyev refinery in order to increase its capacity to process 7.5 million tons of crude oil per year, obtain the amount and quality of products to supply the modified petrochemical plant in Azerrkimya, and to produce Euro V quality automobile fuels.

  The contract awarded to TR consists of modifying the main process units within the so-called Diesel Block (Crude oil and Vacuum, FCC, Kerosene Treatment and Amines) and the Gasoline Block (CCR, Hydrotreatment of Naphtha, and Hydrotreatment of Vacuum Diesel), the modifications and expansion of the service and auxiliary units, the coordination of the work with the existing refinery and the coordination of the other contractors covering other parts of the complete project.

  The contract was awarded under the EPCm type and will be completed in 38 months. This is the second large SOCAR project awarded to Técnicas Reunidas after the SOCAR project Turkey Aegean Refinery (STAR) in Aliaga, Turkey.

  SOCAR – State Oil Company of the Republic of Azerbaijan is an integrated international company that operates within the engineering fields throughout the entire value chain. SOCAR's businesses consist of exploration and production of oil and natural gas, operation of trans-national pipelines, project logistics, refineries and petrochemical plants, in addition to being a recognized marketer of natural gas, oil and petrochemicals.

- Together with its purpose-specific Joint Venture (JV) partners Technip and Samsung, at the end of 2017 Técnicas Reunidas received a $4,200 million contract from Bahrain Petroleum Company (Bapco) for the Bapco Modernization Program (BMP). The project is located on the east coast of Bahrain and involves the expansion of the Sitra oil refinery capacity from 267,000 to 360,000 barrels per day, improvements in energy efficiency, bottom of the barrel monetization and the improvement of products to comply with environmental legislation.

  The project will be executed through a turnkey engineering, supply, construction and launch contract (EPCC), and it is scheduled to be completed in 2022. It includes the following primary units: waste hydrocracking unit, conventional hydrocracking unit, desulfurization unit, crude oil distillation unit, vacuum distillation unit, saturated gas plant, sulphur recovery unit, amine recovery unit, gas a limitation unit, sulphur solidification unit and sulphur manipulation facilities. The contract also covers auxiliary units and systems.

  The awarding of this BMP project is based on the experience of the partners in this JV that was acquired over many years in Bahrain and the region. The scope of the project for Técnicas Reunidas, whose total participation in the contract is $1.35 billion covers the detailed engineering of some of the most complex units, such as the crude oil unit, the vacuum unit, the Hydro cracker, the saturated gas plants 1 and 2 and other auxiliary facilities. It also directly participates in the joint management of the supply of equipment and materials, as well as the construction of the entire project. The partners in this JV will incorporate this contract award in the Group`s portfolio during 2018.

  BAPCO, which is owned by the Government of Bahrain, participates in the oil industry, including refinery activities, the distribution of oil products and natural gas, and oil and refined product exports. The Company owns a refinery with a capacity of 264,000 barrels per day, storage facilities for more than 14 million barrels, a traffic terminal and a maritime terminal for its oil derived products.

The rest of the projects that make up the portfolio are being executed and continue to follow their habitual schedule. The projects that most contributed to the division's and the Group´s revenues at the year-end were: the refinery process unit project at the Al Zour refinery for KNPC in Kuwait, the modernization project at the Talara refinery for Petroperu in Peru, the RAPID refinery complex for Petronas in Malaysia and the clean fuel project at the Ras Tanura refinery for Saudi Aramco in Saudi Arabia.

The year 2017 was not an intensive year in project delivery. Sturgeon refinery project for North West Redwater Partnership in Canada was the main project awarded of the division, performing the work on the expected schedule.

Natural Gas and Upstream

As in the previous year, the year 2017 was not marked by great opportunities in the natural gas and upstream market. Even so, Tecnicas Reunidas knew hot to position itself in those regions where investments where based on local demand and expectations of economic growth in the area. In this way, the Company was able to be awarded in one of the main investments planned for the year, thanks to one of its main customers such us Saudi Aramco, with whom it has a close relationship for more than 15 years. As with the Fadhili mega gas contract awarded in 2015, with this new project Tecnicas Reunidas strengthens its brand to manage large projects scope in the field of gas natural.

- In November, Saudi Aramco announced the signing of eight agreements in which three of them were performed by Tecnicas Reunidas, under the Gas Compression Program of Southern Area. The project will improve and sustain gas production from Haradh and Hamiyah fields for the next 20 years, with the contribution of 1,000 million cubic feet (scfd) additional.

  The scope of the program includes the installation of gas compression units, separations of fluids and transmission lines to the Haradh and Hamiyah fields, together with the expansion of the existing gas pipeline network. The execution of these three contracts were awarded to Tecnicas Reunidas in a turnkey format (LSTK). The engineering and Purchase services will be carried out in the companie´s officed located in Madrid, Spain. The total value of the project it almost 4,500 million USD, while the scope of Tecnicas Reunidas will be around 50% of this amount.

During the year 2017, the projects which contributed most to the sales of division were the Fadhili gas project and Combined Cycle Integrated Gas (GICC) project, both for Saudi Aramco in Saudi Arabia, the gas train project No. 5 (GT5) for KNPC in Kuwait and the project of GASCO for the consortium formed by ADNOC / Total / Shell in the UAE.

In 2017, the Company completed the works of the offshore project of Hail gas field for ADOC in the United Araba Emirated carrying out its schedule and quality commitment.

Energy

Taking into account that the development of the energy production business has been more penalized since the start of the financial crisis due to the restrictions on financing and the fact that the sector has lower barriers of entry to attract competition, the degree of volatility in the contracts obtained by the Division can be understood. For the past several years Técnicas Reunidas has identified that the growth strategy for this Division was outside of its local market and focused its sales efforts on international positioning.

Técnicas Reunidas has broad technological knowledge to design and build combined cycle, open to combined cycle transformation, coal, co-generation and biomass plants that allow it to participate in the main investments in each country. The Company pursues opportunities in the key markets of Canada, United States and Mexico and other countries in Latin America where large investment plans are in place and, in line with this trend, in 2017 the Company obtained the award of a significant contract in Mexico for a new customer of recognized prestige.

The revenues for this Division totalled €684 million, 73% higher than in 2016, thanks to the high level of contracts obtained since 2014. The energy business represented 13% of the Group's total sales and the projects that most contributed to this figure where the biomass plant for MGT Teeside in England, the Kilpilahti electricity generation plant for Neste / Veolia /Borealis in Finland, the Turow coal plant for Polska Grupa Eneretyczna in Poland, and the new project that has been awarded:

- In June, Fisterra Energy, a company of the Blackstone Group, which specializes in the development of energy infrastructure, selected Técnicas Reunidas to design, supply, build and launch a new combined cycle plant with a capacity of 875 MW in Guadalajara Mexico. The project covers the installation of two GE 7HA.02 gas turbines, two recovery boilers and a steam turbine with a total capacity of 875 MW. The scope also includes all of the plant's auxiliary systems, including two substations to connect the plant to the grid. The plant uses natural gas and meets the latest admission standards. The project maintains Técnicas Reunidas at the forefront of the technology Vanguard by providing electricity generation plants using the most efficient gas turbines in the market.

  The total value of the contract is around $500 million. After the order to proceed received on June 23, the project commenced and it will be completed in 30 months.

  This new award for Técnicas Reunidas in Mexico confirms the dedication and commitment that Técnicas Reunidas has for Latin America. Técnicas Reunidas has provided support services to Fisterra energy since the start of the project. Supporting our customers in the early phases of project development contributes to the success of their structuring and execution.

  Fisterra Energy is a company specializing in energy infrastructure investments, focusing primarily on Europe, Latin America and the Middle East. It is wholly owned by Blackstone, the largest private equity fund in the world with more than $360,000 million under management, which also provides financial support for its business. The Blackstone energy division invests in practically all energy industry sectors, and has carried out nearly 25 transactions for a value of $8,100 million in shares in its investee companies.

In 2017 the Company completed its work on the Ashuganj electricity plant for Ashuganj Power Station Company in Bangladesh and the Los Mina combined cycle plant for the US company AES Dominicana in the Dominican Republic, and all specifications were satisfactorily met.

Infrastructures

Over the past few years Técnicas Reunidas has focused its efforts on the international water treatment market. The infrastructure sector in Spain is closely related to government investment plans, which are very restricted as a result of the financial crisis. Accordingly, the Company decided to focus on markets with higher growth potential.

The Company has currently identified Australia and the Middle East as offering great opportunities for the business and where work has been performed in the past.

In addition, the Company also executes other key projects relating to airports, transportation, and industrial, commercial and sports facilities.

2. Research and development activities

TR maintains a firm continuous commitment with R&D through the generation of knowledge, the development of new technologies, the consolidation of developed technologies and diversification towards new industries and applications.

TR's strategic lines of research are focused on raw materials (recovery of metals and non-metals), the environment (recycling of industrial and agricultural waste and water treatment) and energy (energy storage).

At its José Lladó Technology Centre, one of the most modern in Spain and where more than 70 highly qualified employees in various disciplines work, the Company develops Technological Research and Development projects, placing special emphasis on the Company's technological needs. It also provides technological and technical assistance services, collaborates with the transfer of research results to the various Public Research Centres, Technological and Technical and Técnicas Reunidas Centres, and it encourages and participates in cooperative research among companies.

The Technological Centre is an R/D+i space that acts as a driver for the transfer and dissemination of technology, where customers are the Centre's focus and innovation is the competitiveness tool. The Technological Centre facilitates and allows the dynamic participation of the company in innovation and R&D activities.

With more than 5000 m² of facilities and latest-generation equipment, the Technological Centre allows any level of activities to be carried out, from laboratory work to pilot plants, as well as the creation of plants that demonstrate the developed technologies, and even the performance of the basic or advanced engineering of the selected option to complete the entire R&D+i value chain, from the idea stage to the industrial implementation of the developed technology. R&D expense in 2017 exceeded €4 million to maintain the R&D investment policy.

In 2017 Técnicas Reunidas participated in the following national and European projects on an individual basis or as part of strategic consortia:

- The European project LIFE + WALEVA completed the scaling of the technology for obtaining levulinic acid from biomass waste to study technical/financial viability, with a budget of €1.04 million.
- The European project LIFE + ZAESS completed the scaling of the Zn/air flow battery technology developed at the laboratory level to study technical/financial viability, with a budget of €0.67 million.
- The European project BUTANEXT, as part of the H2020 program sponsored by the European Commission and with a budget of €0.92 million, for which TR is developing an innovative lignocellulosic biomass pre-treatment process for the production of bio-butanol.

- The domestic 3R2020 project as part of the CIEN program sponsored by the CDTI, in which TR participates in the development of hydro-metallurgical processes to recover common metals in industrial and urban flows with a high metal content. The budget is €1.5 million.
- The domestic ESTEFI project as part of the CIEN program sponsored by the CDTI, in which TR participates in the development of an energy storage technology based on nickel-zinc batteries for application in Intermodal transportation networks, with a budget of €1.96 million.
- The LIGNOPRIZED project as part of the CIEN program sponsored by the CDTI, in which TR participates with a €3.3 million budget to develop processes to monetize lignin from different sources (Kraft and Klason) to obtain high added-value products and applications.
- The European INTMET project as part of H2020 program sponsored the European Commision, in which TR participates with a budget of €0.71 million to develop processes to obtain Zn, Ag, Pb and high added-value metals from low grade or polymetallic concentrates.
- The national MONACITE project under the CDTI's PID program with a budget of €1.53 million to develop hydro-metallurgical processes to obtain rare earths from monazite.

TR's intention in all of these R&D projects is to increase the number of technologies on its property. As a result of the investment in R&D, TR has a portfolio of technologies that it has already developed and is being implemented throughout the world, such as ZINCEX™ for the recovery of Zn and ECOLEAD™ for the recovery of lead and silver. There is currently a portfolio of possible businesses for the industrial implementation of these technologies in new projects.

3. Financial figures

Compared with 2016, in 2017 the Company's net sales declined by 8% to €2,724 million. Operating profit amounted to €186 million. Profit after taxes totalled €187 million.

4. Business model

Técnicas Reunidas engages in the performance of all classes of engineering services and the construction of industrial plants, including viability or basic and conceptual engineering studies to turnkey engineering, design and construction of large, complex projects, the management of supply, equipment and material deliveries and the construction of plants and related or associated services, such as technical assistance, construction supervision, project management, launch and training.

TR with its engineering services activity, has a solid positioning in the oil, gas, energy, nitrogenized fertilizers, hydrometallurgy, water and infrastructure industries that reinforces its competitiveness and the stability of its businesses.

TR has a serie of values that have been fully integrated into its business model, as follows: Knowledge, Flexibility, Innovation, Credibility, Customer Orientation and Quality. These values show TR's commitment to the development of its business in line with the expectations and demands of its stakeholders (customers, suppliers, society, shareholders, employees, etc.)
Based on these values, TR deploys its strategy, which is structured into three essential pillars: Methodology, Diversification and Quality.
a. Methodology.

The methodology is based on the development, systemization and proper use of all the know-how that TR has acquired throughout its history executing projects around the world. This commitment to methodology allows the efficiency of work processes to be optimized and guaranteed, which is a differentiating element of the Group compared to its competitors. Essential components of this pillar are excellent human talent at Técnicas Reunidas, with highly qualified professionals, and innovation which forms part of TR's DNA and is highly valued by the market and customers.

b. Diversification.

TR has a highly diversified portfolio of customers, products and geographical areas.

TR has customers of recognized prestige who assit the Company to consolidate its presence in the market and their business is highly recurring, which facilitates obtaining new customers and reduces the concentration of risk.

The diversification of products and geographic areas allows TR to have a balanced distribution of its portfolio being more resilient to changes in the market and allowing it to focus on different types of projects depending on market circumstances.

c. Quality.

TR works every day so that the quality of all of its processes (and that of its suppliers and subcontractors) guarantees its customers the optimal operation of their plants in accordance with their needs and the requirements of each project. TR carries on its business under high quality standards that encourage the satisfactory execution of projects while increasing the satisfaction and confidence of customers, which generates long-lasting long-term commercial relationships.

At its José Lladó Technology Centre, one of the most modern in Spain and where more than 70 highly qualified employees in various disciplines work, the Company performs various research and development tasks. With more than 5000 m² in size, this technological centre has the latest generation facilities and equipment.

5. Financial risk management

The main financial risks and management procedures are analysed in Note 3 of the accompanying notes to the annual accounts.

6. Other business risk factors

The main operating risks and the management mechanisms available to TR are set out below:

Risk	**Description**	**Main risk management and mitigation mechanisms**
Changes in cost estimates on projects	Several factors may influence a change in project cost estimates compared to plans such as, for example, the contracting of turnkey projects (the complete price is closed at the start while execution costs may change), the volatility of raw material prices, or the subcontracting of construction companies.	- Development of new contracting formulas to mitigate risk. - Including derivative liability clauses in contracts with suppliers and subcontractors. - Intensive acquisition of the critical equipment that is highly sensitive to raw material prices during the first months of project execution. - Contracting of derivatives that allow the deferred acquisition of certain essential raw materials and equipment. - Distribution of the execution of work among several subcontractors and including subcontractors as project partners. - Including contingencies for deviations in budgets.

Changes in the price of crude oil.	The price of crude oil, in addition to other factors, affects the behaviour of the Group's customers and suppliers, competitors and shareholders.	- Predomination of the NOCs (national oil companies) over IOCs (independent oil companies) in the portfolio (which include factors beyond purely financial considerations in their decision making, such as geopolitical and social criteria). - Mitigation of negotiation risks by the early detection of those matters that may represent a change in the contractual price.
Execution of projects in multiple geographic areas.	TR's projects are carried out in multiple geographic areas, each of which have a different profile of risk to mitigate: political and social tension, limited access locations, limited legal security, etc.	- Selection of projects based on a detailed analysis of the customer and the country (establishing a local presence before making bids), and other matters such as the specific margins on the project and the risks involved. - Use of modular construction methods in locations with limited labour availability or where the site conditions allow for savings compared with other options. - Where possible, TR includes the resolution of disputes at courts or in arbitration in countries in which TR has experience. - Where possible, TR includes clauses that allow prices to be changed in the event of amendments to laws.
Concentration in a low number of customers.	At certain times the portfolio may show a high concentration in a low number of customers and suppliers in certain countries.	- Concentration only in markets in which the Group has sufficient prior experience. - Diversification policy that allows TR to access very different markets. - Deployment of relevant commercial action with new customers in markets in which TR does not yet have a presence. - Atomization and diversification strategy for local and international construction suppliers.
Environmental and safety requirements.	TR carries out projects with risks with impact on the environment or with risks sensitive to safety and health. The Group works to control and minimize those risks by collaborating with its subcontractors and suppliers in this area.	- TR has an Environmental Management and Safety System. - Assurance of environmental management from the engineering phase. Extension of this assurance to suppliers and subcontractors through audits and training.

		- Reinforcement of the safety of processes from the design phase. - Promotion of occupational safety at suppliers and subcontractors.
Economic variables.	Certain economic circumstances (changes in exchange rates, interest rates, availability of financing, taxes, etc.) can have an impact on TR's business and profits.	- Continuous monitoring of the risks associated with currencies and the contracting of exchange hedges. - Management of a solid balance sheet and availability of adequate lines of financing. - Mitigation of the risk of customer liquidity problems by actively participating in the process of obtaining financing through banks that support the operations in which TR participates, as well as through the use of export insurance. - Tax management covered by expert advice.
Information Technology.	As the Group's digital presence has increased, the risk of intrusions into its systems by cybercriminals has increased.	- Information Security Management System certified in accordance with ISO 27001:2015. - Employee training on cybersecurity matters. - An Information Security Committee has been created and analyses the development of the strategic cybersecurity plan, the results of the audits and the primary risks faced.
Retention of key personnel and adaptation of resources to the workload.	The loss of key personnel, as well as shortfalls in their abilities, may increase the risk of not executing projects adequately. Furthermore, the excessive concentration of projects or delays may give rise to inefficiencies in personnel management.	- Procedures to identify essential employees that must be retained and the application to them of policies that contribute to their retention. - Implementation of a flexible Human Resource structure to adapt with agility to changes in the market. - Global management of human resources to make the criteria applied at the various subsidiaries uniform.
Integrity and reputation.	Improper or irresponsible behaviour by employees or other third parties with which the Group collaborates (suppliers and subcontractors) can negatively affect the reputation and results obtained by Técnicas Reunidas.	- Internal regulations and training to guarantee the proper behaviour of professionals and the availability of a Code of Conduct and a Whistleblower Channel. - Demanding minimum requirements from suppliers and subcontractors regarding the environment, human rights, health and safety.

7. Corporate Social Responsibility (CSR).

7.1 Management approach

TR has a CSR management framework based on a CSR Policy approved by the Board that describes the Group's primary commitments regarding corporate governance, social matters and environmental issues. The Policy is available at TR's website.
The Group has supplemented this management framework with additional other specific policies such as, for example, the Quality, Safety, Health and Environment Policy (for further information consult sections 8.3 and 8.5 of this document or the Group's website), and the Code of Conduct (for further information consult section 8.7 or the Group's website).
In addition, in the field of human rights, TR maintains a commitment through its participation in the Global Pact and assumes its 10 principles, including respect for human rights in its Code of Conduct.

7.2 Publication of non-financial information

When reporting non-financial information within the CSR (primarily through this consolidated directors' report and the annual reports that the Group publishes in accordance with the GRI and IIRC integrated reporting standards), TR has performed a materiality analysis that has allowed it to identify the most relevant issues to report to its stakeholders (for further information regarding the methodology used, see the chapter "Basis for the preparation of the Integrated Report", in the Integrated Report for TR 2016, which is available on its corporate website.)

When preparing the non-financial information set out in this Directors' Report the Group has based its work on the European Commission's Notice dated July 5, 2017 on Guidelines for the presentation of non-financial reports (Methodology for the presentation of non-financial information, 2017/C 215/01).

At the date this Directors' Report was published Técnicas Reunidas' Integrated Report for 2017 had not yet been published. This report will be available to stakeholders starting on the date on which the General Shareholders Meeting is held in 2017, on the Group's corporate website.

7.3. Environment

a. Management approach

TR has had an Environmental Management System (EMS) for the past 16 years and which is continuously being developed. This system is implemented and certified in accordance with the standard ISO 14001:2015 based on the policies, programs and practices specifically established in the Environmental Management Manual.

TR's environmental management covers the Group's operations and the activities within its value chain, establishing environmental requirements for its suppliers and subcontractors.
Furthermore, TR makes available to its customers, when requested, its capacities and experience to include sustainability criteria in project designs. This service offers significant added value to the customer, which benefits to better environmental performance by the project during operations, thereby achieving higher efficiency during this phase with lower impact on the environment.

The main environmental issues associated with the business carried out by Técnicas Reunidas consist of the emission of greenhouse gases, energy, waste and the consumption of materials. Throughout 2017 several actions were taken to improve performance within these four areas.

As regards energy and emissions, TR has executed actions such as the adoption of energy efficiency plans and support for circular economies within its businesses.

The Group is very aware of the potential impact that climate change may have on its business, and it has developed a climate risk and opportunity matrix together with the relevant adaptation plan, transparently reporting its climate change performance through participation in initiatives such as the Carbon Disclosure Project (CDP).

TR has worked to optimize the consumption of materials when using material resources in all phases of the value chain and the recovery of materials through R&D+i activities.

Finally, TR has implemented actions to encourage waste prevention, mitigation and control through waste management efforts involving the application of the latest environmental design techniques for the processes at its plants.

b. Main environmental management indicators

Indicator**	**2017** (parentheses indicate change vs 2016)
Energy consumption (Total consumption in GJ)	570,667 (25%)
Emissions of greenhouse effect gases (total level 1 and level 2 tCO_{2eq} emissions).	64,944 (28%)

* Provisional data, currently being externally verified. The final data will be included in Técnicas Reunidas' Integrated Report for 2017 (which will be available publicly after the General Shareholders Meeting in 2017).

** Data relating to Técnicas Reunidas Group

7.4. Employees

a. Management approach

TR carries out a globalized management of its human resources, responding to its strategy for diversification of services and projects, as well as geographic areas. This globalized management approach allows the Group to apply more exhaustive controls over all areas associated with its employees, increasing the reliability of the available information, optimizing the management of that information and ensuring that it offers a series of basic conditions for everyone. TR has a computer tool (*SAP Success Factors)* that allows much more efficient management of issues such as compensation plans, employee performance reviews, training, etc.

TR has professionals of 70 nationalities throughout all of its businesses and, accordingly, it encourages a climate in which there is respect for diversity and employee rights (including the right to be informed and heard, and the application of the International Labour Organization conventions) to guarantee equal opportunities (working for gender equality) and promoting the creation of quality employment for all of its employees, who are valued for their talent and professionalism.

TR has an Equality Committee and a Code of Conduct that includes aspects such as professional development, non-discrimination and equal opportunities. TR also carries out actions to encourage the development of its professionals (through training courses, competency reviews, etc.) and their welfare (performing employment climate surveys and taking improvement action based on the results), such that employee retention is encouraged, together with their growth within the Group.

b. Main employee indicators

Indicator*	2017 (parentheses indicate change vs 2016)
Global headcount (No.)	8,644* (-3%)
Employee training (training hours per employee)	19.5*

* Provisional data, currently being externally verified. The final data will be included in Técnicas Reunidas' Integrated Report for 2017 (which will be available to the General Shareholders Meeting in 2017).

** Data relating to Técnicas Reunidas Group

7.5. Occupational safety and health management

a. Management approach

Since 2008 TR has an Occupational Safety and Health Management System certified in accordance with the standard OHSAS 18001, which takes into consideration all phases of project lifecycles, from their design to construction and launch. This Management System is based on three principles: Accident prevention philosophy Integration of safety in the strategy and continuous improvement of methods and processes.
Within the framework of this Management System, the Group submits to several audits of projects under construction in order to identify deviations.

TR also ensures that high occupational safety standards are maintained by its supply chain, establishing certain requirements and promoting good practices in this respect. The persons responsible for Health and Safety at construction sites ensure the application of the specific Health and Safety plans as well as the preventive actions that they deem necessary. The Company also carries out informational campaigns, which it considers to be an essential measure.
In order to continue improving its occupational health and safety management, in 2017 TR took several actions such as:

- Implementing a system for measuring HSE performance (Health, Safety and Environment) as a pilot project at Talara for all construction employees, in order to monitor the degree of implication of all TR employees.
- The Company has obtained the prestigious international certification NEBOSH (National General Certificate in Occupational Health and Safety) by the entire HSE corporate construction team not deployed on-site.
- A joint meeting was held to analyse the most critical and repetitive non-conforming issues detected during the internal HSE audits in order to implement improvements to the management system.
- A pilot program was implemented to strengthen occupational safety at projects through behaviour change (Behaviour Based Safety).

b. Main occupational health and safety indicators

Indicator*****	**2017** (parentheses indicate change vs 2016)
Lost Time Injury Rate (LTIR)**	0.03 (-25%)
Total Recordable Incident Rate (TRIR)***	0.11 (-31%)

* Provisional data, currently being externally verified. The final data will be included in Técnicas Reunidas' Integrated Report for 2017 (which will be available to the General Shareholders Meeting in 2017).

**LTIR (Lost Time Incident Rate): No. of lost time injuries/No. of hours worked* 200,000

***TRIR (Total Recordable Incident Rate): No. of recordable incidents (according to OHSA)/No. of hours worked* 200,000

** Data relating to Técnicas Reunidas Group

7.6. Social management (local communities and other stakeholders)

a. Management approach

TR's operations have a social dimension that the Group manages by identifying the possible repercussions of its projects on the environment, promoting dialogue with stakeholders and defining actions to reinforce the positive impacts they generate. The management of relationships with these stakeholders is based on three pillars:

- Participation and dialogue: Maintaining regular dialogue with stakeholders in order to gain an awareness of their expectations regarding the business and identifying issues that will help the Group to improve.
- Social Action: Take several initiatives to reinforce positive impacts beyond its business, establishing collaborative efforts with organizations through both financial and other contributions (disseminating knowledge in forums, participation in working groups, etc.).
- Social management of projects: The execution of projects generates several positive and negative social impacts on the environment. TR manages those impacts by identifying their potential consequences and defining action to maximize the positive impacts and reduce or eliminate the negative impacts.

b. Main social management indicators

Indicator***	**2017** (parentheses indicate change vs 2016)
Amount dedicated to social action projects (€)	534* (-9%)
No. of organizations with which TR collaborates with respect to social matters.	33* (+14%)

* Provisional data, currently being externally verified. The final data will be included in Técnicas Reunidas' Integrated Report for 2017 (which will be available to the General Shareholders Meeting 2017).

** Data relating to Técnicas Reunidas Group.

7.7. Measures against corruption and bribery

a. Management approach

To ensure the development of the activities within an ethical management framework, TR has internal regulations that notably include the Code of Conduct, which includes several areas relating to regulatory compliance and policies associated with TR's commitment to acting in accordance with legislation, human rights and internationally accepted practices regarding good governance, ethics and integrity, anti-corruption, etc. TR has taken several training actions to present this Code of Conduct and its policies to employees, suppliers and subcontractors, which are required to know the Code of Conduct and ensure its compliance.

Beyond the Code of Conduct, TR has reinforced its performance in this area:

- Management of a whistleblower channel that allows the reporting of behaviours that could constitute violations of the Code or the law in general.
- Launch of a regulatory compliance unit.
- Development of a Criminal Compliance Management system and the strengthening of all associated policies.

b. Main indicators regarding measures against corruption and bribery

Indicator* **	**2017** (parentheses indicate change vs 2016)
% of notifications received through the whistleblower channel that have been resolved during the reporting period.	100%

* Provisional data, currently being externally verified. The final data will be included in Técnicas Reunidas' Integrated Report for 2017 (which will be available to the General Shareholders Meeting in 2017).

** Data relating to Técnicas Reunidas Group.

7.8. Responsible management of the supply chain

a. Management approach

TR's primary objective when managing its supply chain consists of obtaining the competitive awarding of materials, equipment and assembly services under the standards required by the industry. It is essential for the Group that its supply chain is aligned with its values and requirements in the areas of health and safety, environment, employee rights, respect for human rights, ethics and integrity, etc.

TR has a global supplier market with up-to-date information that allows it to mitigate this risk when selecting suppliers and subcontractors from a financial, performance and quality standpoint, among other matters.

For the management of the supply chain, TR has a management framework that governs the actions of the two main areas responsible for the supply chain: the Supply Unit (responsible for purchases from suppliers of materials and equipment) and the Construction Area (responsible for subcontracting construction work). These two areas manage TR's supply chain in accordance with five keys:

- Continuous innovation in supply chain management.
- Presence of rules and regulations in all processes (tenders, awards, management, etc.).
- Development of annual internal strategic plans that respond to the context of the business and are aligned with TR's global objectives.
- Existence of an Integrated Management System for the supply chain that allows the individual and overall measurement and monitoring of the performance of suppliers and subcontractors.
- Centralization of the bid award system that ensures transparency throughout the bidding process for suppliers and subcontractors.

b. Main indicators for the responsible management of the supply chain

Indicator**	**2017** (parentheses indicate change vs 2016)
Approved suppliers of materials and equipment and construction subcontractors (No.)	2,370* (18%)
Local purchases and subcontracts (% of the total)	3,520* (+36%)

* Provisional data, currently being externally verified. The final data will be included in Técnicas Reunidas' Integrated Report for 2017 (which will be available to the General Shareholders Meeting in 2017).

** Data relating to Técnicas Reunidas Group

8. Corporate Governance Report

The 2017 Corporate Governance Annual Report for Técnicas Reunidas forms part of the Directors' Report and as from the date on which the annual accounts are published it is available on the website of the National Stock Market Committee and the website of Técnicas Reunidas.

9. Capital Structure.

Share capital consists of 55,896,000 shares with a par value of €0.10 per share. There is only one class of shares and therefore they all have the same rights and obligations. There are no restrictions on the transfer of the shares.

Significant shareholdings are as follows:

Company		% interest
Araltec, Corporación S.L.U	Direct	31.99%
Aragonesa de Promoción de Obras y Construcciones S.L.U	Direct	5.10%

Franklin Templeton Investment Management LLC	Direct	3.00%
Norges Bank	Direct	3.02%
Ariel Investment, LLC	Direct	3.01%
Citadel Multi-Strategy Equities Master Fund. LTD	Direct	1.26%

10. Restrictions on voting rights

In accordance with Article 16 of the Bylaws at least 50 shares must be held to attend General Meetings.

11. Shareholder agreements

There are no agreements of this type.

12. Rules governing the appointment and removal of the members of the Board of Directors and amendments to the bylaws

The Annual Corporate Governance Report provides a detailed description of these rules relating to the Board of Directors. The most relevant aspects are:

Articles 17 through 22 of the Board of Directors' Regulations govern the appointment and removal of the directors of Técnicas Reunidas, stipulating that:

1. The Directors shall be designated by the Nomination and Remuneration Committee, the General Shareholders' Meeting or by the Board of Directors in accordance with the Spanish Companies Act.

2. The Board of Directors will ensure that the selection of candidates involves persons of recognized solvency, competence and experience.

3. In order to In order to fill an independent director position the Board of Directors may not propose or designate persons that hold any executive position at the Company or in its Group or that are associated through family and/or professional relationships with the executive directors, other senior executives and/or shareholders of the Company or its group.

4. The Directors will be appointed for terms of four (4) years, notwithstanding the possibility that they may be removed early by the General Shareholders' Meeting. They may be re-elected one or more times for equal terms at the end of their mandate.

5. Independent directors will cease in their positions when they have held the seat for an in interrupted period of 12 years as from the time of the listing of the Company's shares on the market.

6. Directors hold their positions at the pleasure of the Board of Directors and, if deemed appropriate, must present their resignations in the following cases:

- When they cease to hold the executive positions to which their appointment as a Director is associated.
- When they are involved in a legal incompatibility or prohibition.
- When they receive any serious admonishment from the Board of Directors for failing to have upheld their obligations as Directors.
- When their remaining on the Board may jeopardise the Company's interests or when the reasons for which they were appointed no longer exist (for example, when a proprietary director disposes of his/her interest in the Company).

13. Powers of the members of the Board of Directors and, in particular, the power to issue or buy back shares.

The Board of Directors has the habitual management and representation powers as attributed by the Spanish Companies Act and is the maximum decision-taking body at the Company, except with respect to those matters reserved for shareholders at a General Meeting.

The Chairman also holds the same powers as the Board of Directors (except for those established by Article 25 relating to the election of the Chair and the Vice Chairs, or those that cannot be delegated in accordance with the law or internal corporate regulations) and is considered to be the top executive at the Company by virtue of Article 28 of the bylaws.

Article 5 of the Board Regulations stipulates that the Board's functions regarding the powers relating to the possibility of issuing or buying back shares:

- The execution of the treasury share policy within the framework of the authorization provided by shareholders at a general meeting.
- The approval of the Company's general policies and strategies, including the treasury share policy and particularly its limits.
- The approval of the Company's most relevant operating decisions concerning investments and shareholdings in other companies, financial transactions, contracting and personnel remuneration.

14. Significant agreements concluded by the Company that may come into effect, may be amended or terminated in the event of a change in control in the Company as a result of takeover bid.

No agreements of this type exist.

15. Agreements between the Company and its administrative or management personnel that provide for indemnities in the event of resignation or unfair dismissal or if the relationship ends as a result of takeover bid.

There are agreements with three senior executives who, in the event of unfair dismissal, are entitled to an indemnity as decided by the courts and in the event of a dismissal for objective purposes, layoff or any other reason deriving from a decision taken by the Company, the indemnity would total €6,323 thousand.

16. Significant subsequent events

After the end of 2017, the circumstances that marked the financial environment and situation of the industry throughout the second half of the year continue to be present during the first months of 2018. Production in the United States remains the focus of attention in the industry as it relates to possible decisions that may be taken by OPEC to maintain a balance in the supply of oil to the market. The existing political tensions in the Middle East (Iran, Saudi Arabia, Yemen, Iraq and Israel), may endanger the supply of dependent markets and condition the tender processes for new projects in the region. The new monetary policy in the United States, with increases in interest rates that may increase fears of a new period of inflation and weak dollar, will condition the evolution of the industry.

Information on the average period of payment to suppliers. Third additional provision, "Duty of information" of Law 15/2010 of 5 July (In accordance with the new wording given by the second final provision of Law 31/2014 on Spanish Corporates Act).

As stipulated in the law of reference and in the resolution of January 29, 2017, the following information is provided on the weighted average days to pay suppliers:

	2017	2016
	Days	**Days**
Weighted average days to pay suppliers	73	69
Ratio of payments made	72	71
Ratio of payments pending	79	60
	Amount (Euro thousand)	**Amount (Euro thousand)**
Total payments made	966,144	1,108,335
Total payments pending	195,100	252,091