



TECNICAS REUNIDAS

CONSOLIDATED  
ANNUAL ACCOUNTS  
2017







TECNICAS REUNIDAS

CONSOLIDATED  
ANNUAL ACCOUNTS  
2017

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

## *Independent auditors' report on the consolidated annual accounts*

To the shareholders of Técnicas Reunidas, S.A.

### *Report on the consolidated annual accounts*

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#### *Opinion*

We have audited the consolidated annual accounts of Técnicas Reunidas, S.A. (the Parent Company) and its subsidiaries (the Group) consisting of the balance sheet at 31 December 2017, the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and related notes to the consolidated annual accounts, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2017, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

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#### *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 consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated 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.

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#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated 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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Técnicas Reunidas, S.A. and its subsidiaries

| Key Audit Matters  | How our audit addressed the key audit matter   |
|--|--|
| <p><i>Recognition of revenue from construction contracts</i></p> <p>The revenue recognition criteria applied by the Group are based on the percentage completion method in accordance with IAS 11 Construction Contracts.</p> <p>When applying the percentage of completion method the Group 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.</p> <p>The Group 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.</p> <p>The information regarding construction contracts is set out in Notes 2.21, 4, 12 and 24 to the consolidated annual accounts.</p> <p>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.</p> | <p>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.</p> <p>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.</p> <p>Additionally, we performed a selection based on statistical criteria for all of the remaining projects.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• We analysed the evolution of margins compared to changes in both the selling price and total budgeted costs.</li> <li>• We evaluated the coherence of the estimates made by the Group last year by comparing them against the actual data deriving from contracts in progress this year.</li> <li>• We recalculated the percentage of completion of each stage of the selected projects and compared it against the results obtained from the Group's calculations.</li> <li>• 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.</li> <li>• We obtain explanations regarding the reconciliation between the financial information and the follow-up reports for the projects provided by project management.</li> </ul> |



Técnicas Reunidas, S.A. and its subsidiaries

#### Key Audit Matters

#### How our audit addressed the key audit matter

Finally, we have verified that the information disclosures included in Notes 2.21, 4, 12 and 24 to the accompanying consolidated 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 Group underwent an inspection of the Spanish Tax Group regarding corporate income tax for the years 2008 through 2011.

After the tax inspection action was completed in 2015 the Parent Company received a proposed settlement totalling €136.2 million, plus interest due to discrepancies in transfer pricing.

The Parent Company contested the assessment and appealed the decision through administrative processes and provided the necessary financial guarantees.

The Group has implemented processes and controls to assess the risks and probability that a potential liability must be recognized in the consolidated 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 29 to the consolidated annual accounts.

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.

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 Group's estimates.

To analyse the reasonableness of the Group's estimate, we have involved internal tax specialists and, as part of our substantive work, we held interviews with the Group's attorneys regarding the actions taken by the tax authorities to date.

We have analysed the probability of success that the Group's challenge of the conclusions reached by the tax authorities will have, which corroborate the estimate made by the Group and the information regarding this matter set out in the consolidated 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.





Técnicas Reunidas, S.A. and its subsidiaries

| Key Audit Matters   | How our audit addressed the key audit matter   |
|---|--|
| <p><i>Deferred tax assets</i></p> <p>The consolidated balance sheet at 31 December 2017 includes a balance of €254,564 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 Parent Company when the companies engaging in those businesses are liquidated. It also includes a tax credit balance totalling €32,842 thousand, primarily relating to tax-loss carry forwards, that will be recoverable in jurisdictions other than Spain.</p> <p>At the end of the year Group 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.</p> <p>The information relating to the deferred tax assets is disclosed in Note 29 to the consolidated annual accounts.</p> <p>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.</p> | <p>We have obtained an understanding and analysed the estimation process applied by directors and by management, focusing our procedures on matters such as:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• The criteria used when calculating the deferred tax assets.</li> <li>• 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.</li> </ul> <p>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.</p> <p>Finally, we have verified that Note 29 to the accompanying consolidated annual accounts contains the appropriate disclosures in this respect.</p> <p>The results of the procedures performed allowed us to reasonably obtain the audit objectives for which these procedures were designed.</p> |

*Other information: Consolidated directors' report*

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

Our audit opinion on the consolidated annual accounts does not cover the consolidated director's report. Our responsibility regarding the information contained in the consolidated 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 consolidated 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



Técnicas Reunidas, S.A. and its subsidiaries

provided in the consolidated 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 consolidated directors' report, which consists of evaluating and reporting on the consistency of that information with that presented in the consolidated financial statements based on the knowledge gained of the Group 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 consolidated 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 consolidated directors' report and that the rest of the information contained in the consolidated directors' report is consistent with that of the consolidated annual accounts for 2017 and its content and presentation are in accordance with applicable regulations.

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*Responsibility of the directors and the audit and control committee at the Parent Company for the consolidated annual accounts*

The Parent Company's directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent Company's directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

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

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*Auditor's responsibilities for the audit of the consolidated annual accounts*

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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:



### Técnicas Reunidas, S.A. and its subsidiaries

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent Company's directors.
- Conclude on the appropriateness of the Parent Company's 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent 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 Parent 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 Parent Company's audit and control committee, we determine those matters that were of most significance in the audit of the consolidated 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.



Técnicas Reunidas, S.A. and its subsidiaries

### *Report on other legal and regulatory requirements*

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#### *Additional report for the Parent Company's audit and control committee*

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

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#### *Contract term*

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

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#### *Services rendered*

Services other than audit rendered to the Group are those described in Note 37b) to the accompanying consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L.  
Registered with R.O.A.C. No. S0242

Deloitte, S.L.  
Registered with R.O.A.C. No. S0692

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

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

27 February 2018

27 February 2018

**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A. AND ITS SUBSIDIARIES AT  
DECEMBER 31, 2017**

**CONSOLIDATED BALANCE SHEET**

(Figures in Euro Thousand)

At 31 December

|   | Note  | 2017             | 2016             |
|---|-------|------------------|------------------|
| <b>ASSETS</b>   |       |                  |                  |
| <b>Non-current assets</b>                             |       |                  |                  |
| Property, plant and equipment                         | 6     | 44,212           | 62,870           |
| Goodwill  | 7     | 1,242            | 1,242            |
| Other intangible assets                               | 7     | 4,609            | 5,545            |
| Investments in associates                             | 8     | 13,386           | 13,128           |
| Deferred assets                                       | 29    | 254,564          | 225,753          |
| Available-for-sale financial assets                   | 9     | 1,016            | 1,016            |
| Derivative financial instruments                      | 10    | 361              | 2,780            |
| Receivables and other assets                          | 10,14 | 18,422           | 20,789           |
|   |       | <b>337,812</b>   | <b>333,123</b>   |
| <b>Current-Assets</b>                                 |       |                  |                  |
| Assets classified for sale                            | 11    | 52,342           | 59,039           |
| Inventories   | 13    | 17,923           | 16,992           |
| Trade and other receivables                           | 12    | 2,786,123        | 2,406,307        |
| Receivables and other assets                          | 10,14 | 16,484           | 16,677           |
| Derivative financial instruments                      | 10    | 37,787           | 14,755           |
| Financial assets at fair value through profit or loss | 10,15 | 67,362           | 64,169           |
| Cash and cash equivalents                             | 16    | 569,939          | 688,269          |
|   |       | <b>3,547,960</b> | <b>3,266,208</b> |
| <b>Total assets</b>                                   |       | <b>3,885,772</b> | <b>3,599,331</b> |

Notes 1 to 39 and Exhibits I to IV are an integral part of these consolidated annual accounts.

**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A. AND ITS SUBSIDIARIES AT  
DECEMBER 31, 2017**
**CONSOLIDATED BALANCE SHEET**

(Figures in Euro Thousand)

At 31 December

|  | Note      | 2017             | 2016             |
|--|-----------|------------------|------------------|
| <b>Equity</b>  |           |                  |                  |
| <b>Capital and reserves attributable to owners of the parent</b> |           |                  |                  |
| Share capital  | 17        | 5,590            | 5,590            |
| Share premium  | 17        | 8,691            | 8,691            |
| Treasury shares  | 17        | (73,041)         | (72,623)         |
| Other reserves   | 18        | 1,137            | 1,137            |
| Capitalization Reserve   | 18        | 3,056            | 3,056            |
| Hedging reserve  | 10        | 15,836           | (73,427)         |
| Cumulative translation differences                               | 19        | (31,840)         | (17,630)         |
| Retained earnings  | 20        | 551,494          | 618,782          |
| Interim dividend   | 20        | (35,852)         | (35,852)         |
| <b>Equity attributable to owners of the parent</b>               |           | <b>445,071</b>   | <b>437,724</b>   |
| <b>Non-controlling interests</b>                                 | <b>20</b> | <b>18,233</b>    | <b>4,102</b>     |
| <b>Total equity</b>  |           | <b>463,304</b>   | <b>441,826</b>   |
| <b>LIABILITIES</b>   |           |                  |                  |
| <b>Non-current liabilities</b>                                   |           |                  |                  |
| Borrowings   | 10,22     | 92,215           | 155,212          |
| Derivative financial instruments                                 | 10        | 2,489            | 4,383            |
| Deferred liabilities   | 29        | 39,520           | 21,428           |
| Other payables   | 10,21     | 288              | 409              |
| Other liabilities  | 10        | 42               | 42               |
| Employee benefit obligations                                     |           | 2,174            | 2,248            |
| Provisions for liabilities and charges                           | 23        | 43,202           | 34,976           |
|  |           | <b>179,930</b>   | <b>218,698</b>   |
| <b>Current liabilities</b>                                       |           |                  |                  |
| Trade and other payables   | 21        | 2,796,013        | 2,570,543        |
| Current tax liabilities  | 29        | 64,370           | 67,793           |
| Borrowings related to the assets classified as held for sale     | 11        | 21,546           | 24,474           |
| Borrowings   | 10,22     | 292,219          | 84,923           |
| Derivative financial instruments                                 | 10        | 28,423           | 147,092          |
| Other payables   | 10,21     | 36,329           | 36,733           |
| Provisions for liabilities and charges                           | 23        | 3,638            | 7,249            |
|  |           | <b>3,242,538</b> | <b>2,938,807</b> |
| <b>Total liabilities</b>   |           | <b>3,422,468</b> | <b>3,157,505</b> |
| <b>Total equity and liabilities</b>                              |           | <b>3,885,772</b> | <b>3,599,331</b> |

Notes 1 to 39 and Exhibits I to IV are an integral part of these consolidated annual accounts.

**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A. AND ITS SUBSIDIARIES AT  
DECEMBER 31, 2017**
**CONSOLIDATED INCOME STATEMENT**

(Figures in Euro Thousand)

|  |           | Year ended at 31 December |                 |
|--|-----------|---------------------------|-----------------|
|  | Note      | 2017                      | 2016            |
| Revenue  | 24        | 5,067,944                 | 4,792,610       |
| Change in inventories  |           | 1,013                     | (3,813)         |
| Raw materials and consumables  | 25        | (4,052,019)               | (3,403,140)     |
| Employee benefit expense   | 26        | (581,498)                 | (576,311)       |
| Depreciation/amortisation and impairment charges   | 6 y 7     | (21,507)                  | (19,112)        |
| Lease and royalty expenses   | 27        | (73,985)                  | (60,591)        |
| Other expenses   | 25        | (241,380)                 | (541,874)       |
| Other income   | 25        | 1,829                     | 4,167           |
| <b>Operating profit</b>  |           | <b>100,397</b>            | <b>191,936</b>  |
| Finance income   | 28        | 8,923                     | 10,255          |
| Finance costs  | 28        | (15,844)                  | (6,264)         |
| Share in profit (loss) of associates   | 8         | (2,288)                   | (2,529)         |
| <b>Profit before tax</b>   |           | <b>91,188</b>             | <b>193,398</b>  |
| Income tax expense   | 29        | (27,173)                  | (53,197)        |
| <b>Profit for the year from continuing operations</b>  |           | <b>64,015</b>             | <b>140,201</b>  |
|  | <b>11</b> | <b>(5,049)</b>            | <b>(11,014)</b> |
| <b>Profit/(loss) from discontinued operations</b>  |           | <b>58,966</b>             | <b>129,187</b>  |
| <b>Profit for the year</b>   |           |                           |                 |
| Attributable to:   | 20        | 39,527                    | 128,853         |
| Owners of the parent   | 20        | 19,439                    | 334             |
| <b>Non-controlling interests</b>   |           | <b>58,966</b>             | <b>129,187</b>  |
| <b>Earnings per share for profit from continuing operations attributable to owners of the parent</b> (expressed in euro per share) |           |                           |                 |
| – Basic and diluted  | 30        | 0.82                      | 2.60            |
| <b>Earnings per share for profit for the year attributable to owners of the parent</b> (expressed in euro per share)               |           |                           |                 |
| – Basic and diluted  | 30        | 0.73                      | 2.40            |

Notes 1 to 39 and Exhibits I to IV are an integral part of these consolidated annual accounts.

**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A. AND ITS SUBSIDIARIES AT  
DECEMBER 31, 2017**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Figures in Euro Thousand)

|   |      | Year ended at 31 December |                |
|---|------|---------------------------|----------------|
|   | Note | 2017                      | 2016           |
| <b>Profit /(loss) for the year</b>  |      | <b>58,966</b>             | <b>129,187</b> |
| <b>Other comprehensive income</b>   |      |                           |                |
| <i>Items that will not be restated to profit/ (loss)</i>  |      | -                         | -              |
| <b>Total items that will not be restated</b>  |      | -                         | -              |
| <b>Items that may later be restated to income</b>   |      |                           |                |
| Cash Flow Hedges  | 10   | 111,839                   | 27,723         |
| Tax effect  |      | (22,576)                  | (7,947)        |
| Cash-flow hedges net of tax   |      | 89,263                    | 19,776         |
| Profit (loss) in change rate due to translation of foreign business operations                        | 19   | (41,348)                  | (22,789)       |
| <b>Total items that may later be restated to income</b>   |      | <b>47,915</b>             | <b>(3,013)</b> |
| <b>Other comprehensive income for the year, net of tax</b>  |      | <b>47,915</b>             | <b>(3,013)</b> |
| <b>Total comprehensive income for the year</b>  |      | <b>106,881</b>            | <b>126,174</b> |
| <b>Attributable to:</b>   |      |                           |                |
| - Owners of the parent  |      | 87,611                    | 125,840        |
| - Non controlling interest  |      | 19,270                    | 334            |
| <b>Total comprehensive income for the year</b>  |      | <b>106,881</b>            | <b>126,174</b> |
| <b>Total comprehensive income for the year attributable to the owners of the parent arising from:</b> |      |                           |                |
| - Continuing operations   |      | 92,660                    | 136,854        |
| - Discontinued operations   |      | (5,049)                   | (11,014)       |
|   |      | 87,611                    | 125,840        |

Notes 1 to 39 and Exhibits I to IV are an integral part of these consolidated annual accounts.



**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A. AND ITS SUBSIDIARIES  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(Figures in Euro Thousand)

|  | Attributable to the owners of the parent |                               |                                 |                                |  |                                   |   |                                   |                                  |           | Non-<br>controlling<br>interests | Total<br>equity |
|--|--|-------------------------------|---------------------------------|--------------------------------|--|-----------------------------------|---|-----------------------------------|----------------------------------|-----------|----------------------------------|-----------------|
|  | Share<br>capital<br>(Note 17)            | Share<br>premium<br>(Note 17) | Treasury<br>shares<br>(Note 17) | Other<br>reserves<br>(Note 18) | Capitalization<br>Reserve<br>(Note 18) | Hedging<br>cobertura<br>(Note 10) | Cumulative<br>translation<br>differences<br>(Note 19) | Retained<br>earnings<br>(Note 20) | Interim<br>dividend<br>(Note 20) | (Note 20) |                                  |                 |
| <b>Balance at 1 January 2017</b>                                   | 5,590                                    | 8,691                         | (72,623)                        | 1,137                          | 3,056                                  | (73,427)                          | (17,630)  | 618,782                           | (35,852)                         | 4,102     | 441,826                          |                 |
| <b>Comprehensive income</b>  |  |                               |                                 |                                |  |                                   |   |                                   |                                  |           |                                  |                 |
| Profit (loss) for the year, 2017                                   | -  | -                             | -                               | -                              | -                                      | -                                 | -   | 39,527                            | -                                | 19,439    | 58,966                           |                 |
| <b>Other comprehensive income</b>                                  |  |                               |                                 |                                |  |                                   |   |                                   |                                  |           | -                                |                 |
| Cash flow hedges, net of tax                                       | -  | -                             | -                               | -                              | -                                      | 89,263                            | -   | -                                 | -                                | -         | 89,263                           |                 |
| Profit (loss) in change rate due to foreign<br>business operations | -  | -                             | -                               | -                              | -                                      | -                                 | (41,348)  | -                                 | -                                | (169)     | (41,517)                         |                 |
| <b>Total other comprehensive income</b>                            | -  | -                             | -                               | -                              | -                                      | 89,263                            | (41,348)  | 39,527                            | -                                | 19,270    | 106,712                          |                 |
| <b>Total comprehensive income for the<br/>year</b>                 | -  | -                             | -                               | -                              | -                                      | 89,263                            | (41,348)  | 39,527                            | -                                | 19,270    | 106,712                          |                 |
| <b>Transactions with owners</b>                                    |  |                               |                                 |                                |  |                                   |   |                                   |                                  |           | -                                |                 |
| Transactions in treasury shares, net of<br>tax                     | -  | -                             | (418)                           | -                              | -                                      | -                                 | -   | (774)                             | -                                | -         | (1,192)                          |                 |
| Distribution against 2016 profit                                   | -  | -                             | -                               | -                              | -                                      | -                                 | -   | (75,000)                          | 35,852                           | (5,139)   | (44,287)                         |                 |
| Interim dividend against 2017 profit                               | -  | -                             | -                               | -                              | -                                      | -                                 | -   | -                                 | (35,852)                         | -         | (35,852)                         |                 |
| Reserves Transfer (Note 19)  | -  | -                             | -                               | -                              | -                                      | -                                 | 27,138  | (27,138)                          | -                                | -         | -                                |                 |
| Other movements  | -  | -                             | -                               | -                              | -                                      | -                                 | -   | (3,903)                           | -                                | -         | (3,903)                          |                 |
| <b>Total transactions with owners</b>                              | -  | -                             | (418)                           | -                              | -                                      | -                                 | 27,138  | (106,815)                         | -                                | (5,139)   | (85,234)                         |                 |
| <b>Balance at 31 December 2017</b>                                 | 5,590                                    | 8,691                         | (73,041)                        | 1,137                          | 3,056                                  | 15,836                            | (31,840)  | 551,494                           | (35,852)                         | 18,233    | 463,304                          |                 |

Notes 1 to 39 and Exhibits I to IV are an integral part of these consolidated annual accounts..

**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A. AND ITS SUBSIDIARIES  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(Figures in Euro Thousand)

|   | Attributable to the owners of the parent |               |                 |                |                        |                 |                                    |                   |                  |           | Non-controlling interests | Total equity |
|---|--|---------------|-----------------|----------------|------------------------|-----------------|------------------------------------|-------------------|------------------|-----------|---------------------------|--------------|
|   | Share capital                            | Share premium | Treasury shares | Other reserves | Capitalization Reserve | Hedging reserve | Cumulative translation differences | Retained earnings | Interim dividend |           |                           |              |
|   | (Note 17)                                | (Note 17)     | (Note 17)       | (Note 18)      | (Note 18)              | (Note 10)       | (Note 19)                          | (Note 20)         | (Note 20)        | (Note 20) |                           |              |
| <b>Balance at 1 January 2016</b>                                | 5,590                                    | 8,691         | (74,150)        | 1,137          | -                      | (93,203)        | (4,165)                            | 585,713           | (35,830)         | 3,737     | 397,520                   |              |
| <b>Comprehensive income</b>                                     |  |               |                 |                |                        |                 |                                    |                   |                  |           |                           |              |
| Profit (loss) for the year, 2016                                | -  | -             | -               | -              | -                      | -               | -                                  | 125,853           | -                | 334       | 129,187                   |              |
| <b>Other comprehensive income</b>                               |  |               |                 |                |                        |                 |                                    |                   |                  |           |                           |              |
| Cash flow hedges, net of tax                                    | -  | -             | -               | -              | -                      | 19,776          | -                                  | -                 | -                | -         | 19,776                    |              |
| Profit (loss) in change rate due to foreign business operations | -  | -             | -               | -              | -                      | -               | (22,789)                           | -                 | -                | -         | (22,789)                  |              |
| <b>Total other comprehensive income</b>                         | -  | -             | -               | -              | -                      | 19,776          | (22,789)                           | 128,853           | -                | 334       | 126,174                   |              |
| <b>Total comprehensive income for the year</b>                  | -  | -             | -               | -              | -                      | 19,776          | (22,789)                           | 128,853           | -                | 334       | 126,174                   |              |
| <b>Transactions with owners</b>                                 |  |               |                 |                |                        |                 |                                    |                   |                  |           |                           |              |
| Transactions in treasury shares, net of tax                     | -  | -             | 1,527           | -              | -                      | -               | -                                  | (192)             | -                | -         | 1,335                     |              |
| Distribution against 2015 profit                                | -  | -             | -               | -              | -                      | -               | -                                  | (75,000)          | 35,830           | -         | (39,170)                  |              |
| Dividend  | -  | -             | -               | -              | -                      | -               | -                                  | (3,056)           | -                | -         | -                         |              |
| Capitalization Reserve  | -  | -             | -               | -              | 3,056                  | -               | -                                  | -                 | -                | -         | -                         |              |
| Interim dividend against 2016 profit                            | -  | -             | -               | -              | -                      | -               | -                                  | -                 | (35,852)         | -         | (35,852)                  |              |
| Reserves Transfer   | -  | -             | -               | -              | -                      | -               | 9,324                              | (9,324)           | -                | -         | -                         |              |
| Other movements   | -  | -             | -               | -              | -                      | -               | -                                  | (8,212)           | -                | 31        | (8,181)                   |              |
| <b>Total transactions with owners</b>                           | -  | -             | 1,527           | -              | 3,056                  | -               | 9,324                              | (95,784)          | (22)             | 31        | (81,868)                  |              |
| <b>Balance at 31 December 2016</b>                              | 5,590                                    | 8,691         | (72,623)        | 1,137          | 3,056                  | (73,427)        | (17,630)                           | 618,782           | (35,852)         | 4,102     | 441,826                   |              |

Notes 1 to 39 and Exhibits I to IV are an integral part of these consolidated annual accounts.

**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A. AND ITS SUBSIDIARIES**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**CONSOLIDATED CASH FLOW STATEMENT**

(Figures in Euro Thousand)

Year ended at 31 December

|   | Note  | 2017             | 2016            |
|---|-------|------------------|-----------------|
| <b>Cash flows from operating activities</b>                 |       |                  |                 |
| <b>Profit for the year</b>                                  |       | <b>58,966</b>    | <b>129,187</b>  |
| <b>Adjustments:</b>   |       |                  |                 |
| – Taxes   | 29    | 27,173           | 53,197          |
| – Depreciation/amortisation of PPE and intangible assets    | 6 & 7 | 21,527           | 17,756          |
| – Change in provisions, net                                 | 24    | 4,615            | 5,315           |
| – Share in (profit)/loss of associates                      | 8     | 2,288            | 2,529           |
| – Change in fair value of financial instruments             | 28    | (3,198)          | (1,076)         |
| – Interest income   | 28    | (5,725)          | (6,568)         |
| – Interest expense  | 28    | 8,811            | 6,264           |
| – Change in gains/losses on derivatives                     | 10    | (39,376)         | 85,755          |
| – Accumulated impairment losses                             | 11    | 6,697            | 11,414          |
| – Translation differences                                   | 28    | 7,033            | (2,834)         |
| – Other income / expenses                                   |       | 10,266           | (3,863)         |
| <b>Changes in working capital</b>                           |       |                  |                 |
| – Inventories   |       | (931)            | 4,704           |
| – Trade and other receivables                               |       | (397,044)        | (52,370)        |
| – Other financial assets                                    |       | (5,300)          | 30,799          |
| --Trade payables  |       | 191,799          | (50,792)        |
| – Other accounts payable                                    |       | (5,548)          | (9,935)         |
| – Hedging derivatives and other changes                     | 10    | 9,736            | (82,328)        |
| <b>Other operating cash flows:</b>                          |       |                  |                 |
| – Dividends collected                                       |       | –                | –               |
| – Interest paid   |       | (8,811)          | (6,264)         |
| – Interest received   |       | 5,725            | 6,568           |
| – Tax paid  |       | (58,111)         | (78,364)        |
| <b>Net cash generated by operating activities</b>           |       | <b>(169,408)</b> | <b>59,094</b>   |
| <b>Cash flows from investing activities</b>                 |       |                  |                 |
| Purchases of property, plant and equipment                  | 6     | (12,716)         | (15,028)        |
| Purchases of intangible assets                              | 7     | (1,166)          | (1,669)         |
| Purchases of associates                                     | 8     | (2,785)          | (12,054)        |
| Purchases of other non-current assets                       |       |                  | (2,909)         |
| Proceeds from sale of non-current assets                    |       | 2,542            | 340             |
| <b>Net cash used in investing activities</b>                |       | <b>(14,125)</b>  | <b>(31,320)</b> |
| <b>Cash flows from financing activities</b>                 |       |                  |                 |
| Proceeds from borrowings                                    |       | 525,379          | 182,105         |
| Repayment of borrowings                                     |       | (384,009)        | (156,955)       |
| Dividends paid  | 20    | (75,000)         | (75,022)        |
| Net acquisitions/sales of treasury shares                   |       | (1,168)          | 1,527           |
| <b>Net cash used in financing activities</b>                |       | <b>65,202</b>    | <b>(48,345)</b> |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |       | <b>(118,331)</b> | <b>(20,571)</b> |
| <b>Cash and cash equivalents at beginning of year</b>       |       | <b>688,269</b>   | <b>708,840</b>  |
| <b>Cash and cash equivalents at end of the year</b>         |       | <b>569,938</b>   | <b>688,269</b>  |

Notes 1 to 39 and Exhibits I to IV are an integral part of these consolidated annual accounts..

# CONSOLIDATED ANNUAL -NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

(Figures in Euro Thousand)

## 1. GENERAL INFORMATION

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

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

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

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

Since 21 June 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 index.

The Group's consolidated annual accounts for 2016 were approved at the Annual General Meeting held on 29 June 2017.

These consolidated annual accounts were authorised for issue by the Board of Directors on 26 February 2018. The directors will submit these consolidated annual accounts to the Annual General Meeting and expect them to be approved without modification.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied in preparing the accompanying consolidated annual accounts are described below.

### 2.1. Basis of presentation

The Company's directors prepared the Group's 2017 consolidated annual accounts in accordance with the International Financial Reporting Standards (hereinafter EU-IFRS) adopted by the European Union and approved by European Commission Regulations, and which are in force at 31 December 2017, and with all prevailing IFRIC interpretations and company law applicable to companies reporting under EU-IFRS.

The policies indicated below have been applied uniformly to all of the fiscal years presented in these consolidated annual accounts, unless otherwise indicated.

The consolidated annual accounts have been prepared from the accounting records of Técnicas Reunidas, S.A. and its subsidiaries, present a fair view of the equity, financial position of the Group at December 31st 2017, as well as the consolidated results, of changes in equity and the cashflow statement at the annual year ended in such date, and have been prepared under the basis of historical cost modified by the recording criteria of assets held for sale and assets and liabilities (including derivatives) at fair value with changes in equity.

The preparation of consolidated annual accounts under IFRS- EU requires the use of certain critical accounting estimates. The use of IFRS-EU also requires that management exercise judgement in the process of applying the Group's accounting policies. Note 4 discloses the areas that require a higher level of judgement or entail greater complexity, and the areas where assumptions and estimates are significant with respect to the consolidated financial statements.

For information comparison purposes, the Group presents, joint to the consolidated balance sheet, the profit and loss account, the consolidated statement of comprehensive income, the consolidated cash flow statements and the consolidated statement of changes in equity for the years ended at December 31 2017 and 2016. The Group presents comparative information in the notes to the annual accounts when it is relevant for the better comprehension of the consolidated annual accounts.

For a better comprehension of the consolidated annual accounts, the presentation, classification and aggregation of some captions have been reviewed.

The figures in these annual accounts are shown in Euro thousand, unless explicitly stated otherwise.

### 2.1.1. Changes in accounting policies and disclosure

#### **Mandatory standards, amendments and interpretations for all years commencing 1 January 2017:**

As a result of their approval, publication and entry into effect on 1 January 2017, the following standards have been applied.:

- IAS 7 (Amendment) "Cash flow statement. Initiative about the information to publish". The modifications have as purpose to clarify the IAS 7 to improve the published information to the stakeholders about the financial activities of the company. The modifications are effective for annual periods since January 1 2017, with anticipated application permitted.
- IFRS 12 (Amendment) "Publication of information about shares in other companies as part of the annual improvement projects to the IFRS cycle 2014.2016). The modifications are effective for annual periods which starts since January 1 2017.
- IAS 12 (Amendment) "Corporate Income Tax". Recognition of deferred tax assets for non-realized losses. The modifications have as purpose clarify the the non-realized losses in equity instruments measured at fair value in the financial instruments but at cost for taxation purposes may arise deductible temporary differences. The modifications are effective for annual periods, which start since January 1 2017 with anticipated application permitted.

Analysis of the Accounting Standards and Interpretations apply from 1 January 2017 has not been identified any significant impact that has to be included in the consolidated annual accounts.

#### **Standards, amendments and interpretations which have not yet come into effect but which may be adopted early in the years starting or after 1 January 2017:**

At the date of these consolidated annual accounts, the IASB and IFRS Interpretations Committee had published the following standards, amendments and interpretations, application of which is not mandatory yet, and the Group does not apply in advance.

- IFRS 9 "Financial Instruments".

The IFRS 9 substitutes from January 1 2018 to the NIC39, including mainly three aspects about the previous standard.

- Modifies the classification and valuation of financial assets and liabilities.
- Includes a new impairment model of financial assets.
- Presents new rules for the accounting of general hedge accounting.

The accounting effects identified of the first application will be booked in reserves and will mainly related to the new impairment financial assets model.

The new model requires the recognition of an impairment accrual based on the expected loss as a diference to the incurred loss model of IAS 39. The expected loss model considers the booking, at the date of initial recognition of the financial assets, as the expected loss that may arise in case of default during the next 12 months or during contract life long, depending on the evolution of the risk of the financial asset.

The expected increase of the accrual for default will be limited in Técnicas Reunidas because most of the accounts receivables are with high rating clients. In this sense, the initial impact of adopting IFRS 9 in the consolidated annual accounts is estimated in approximately a range of 15 to 20 million euro.

The Group does not expect that this new rule has a significant impact in the classification and valuation of its financial assets and liabilities for the following reasons:

- The debt financial instruments currently valued at amortized cost comply with the requirements to keep valued under the same criteria according to IFRS 9.
- The financial instruments currently classified as held for sale comply with the requirements to be valued at reasonable value with changes in other comprehensive income, not modifying the accountancy of these assets.
- The financial instruments currently measure at fair value through profit and loss account will remain the same criteria under IFRS 9.
- The classification at reasonable value with changes in other comprehensive income can be used for those equity instruments as long as are not held to negotiate.

Additionally, the standard gives a wider flexibility in the application of hedge accounting and includes new classification criteria and valuation of assets based on the contractual features of the instruments and the entity management model. The Group has implemented changes on the systems and controls needed for the proper documentation of the derivatives according to IFRS 9.

- IFRS 15 “Revenue from contracts with customers”.

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

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

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

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

Under IFRS 15, income should be recognised as the obligations included in the contract are met. In addition, more detailed disclosures are required.

The Group will apply the effect since January 1 2018 after updating the internal policy where application criteria have been defined.

Identified impacts mainly relate to the following items:

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

- Approval requirements in revenue recognition due to contract amendments and items for which claims could be made. IFRS 15 requires approval by the customer (IFRS 15 p.18), which is more demanding than the probability requirement under the current standard. In the event of amendments or claims in which the customer has approved the scope of the work but its valuation is outstanding, revenue will be recognised at the amount that is highly likely not to undergo a significant reversal in the future. This change implies a delay in the revenue recognition because it establishes more criteria that are restrictive. The negative impact in equity assigned to the shareholders under this concept amounts to 35,000 million euro.
- Identification and recognition of the costs for obtaining contracts (IFRS 15 p. 91) and the costs of fulfilling contracts (IFRS 15 p. 95). IFRS 15 specifies that only those costs identified as incremental may be capitalised, which requires a detailed analysis of the costs of obtaining a contract by identifying the incremental costs and the expectations concerning their recovery. The Group has reviewed and analyzed the impacts resulting from this change; however, the capitalised amount of this type of costs is not significant.
- Establishment of a consistent revenue recognition method for contracts with similar characteristics. The new standard requires using a consistent revenue recognition method for contracts and performance obligations with similar characteristics (IFRS 15 p.40). The application of this rule does not imply a change in the criterion currently used by the Group.

With regard to information systems, the current systems will be maintained adapting the controls put in place.

- IFRS 16 “Leases”.

IFRS 16 includes requirements for the presentation of balances and transactions resulting from leases. The standard establishes a single accounting model in the balance sheet for the lessee's accounting. A tenant recognizes a right of use asset that represents his right to use the underlying asset and a liability that represents your obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value assets. The accounting of the lessors remains similar to the current one, that is, landlords continue to classify leases as financial or operational leases. IFRS 16 “Leases” replaces the current guide to leases, including IAS 17 Leases, Interpretation IFRIC 4: Determination of whether an Arrangement contains a Lease, Interpretation SIC-15 Operating Leases - Incentives and Interpretation SIC-27 Evaluation of the Substance of the Transactions with the Legal Form of a Lease.

IFRS 16 also includes multiple requirements for breakdowns, which will be provided in a single note or a separate section of the financial statements, intended to meet a general objective of providing sufficient information to provide a basis for assessing the effect that leases have on the financial position of an entity, its results and cash flows.

The Group's intention is to adopt IFRS 16 in 2019. As a result, the Group will undertake a project to prepare for its adoption consisting of:

- The revision of the different types of lease agreements.
- The definition of accounting policies, especially in matters related to the determination of the term of the lease and the discount rates.
- Lease data capture and calculations.

Annual improvements to the IFRS 2014-2016 cycle: Amendments to IFRS 1, “First time adoption of the International Financial Reporting Standards” and to IAS 28, “Investments in associates and in joint business.”

These modifications introduce minor changes to these two standards. For IFRS 1, short-term exemptions the term in paragraphs E3 to E7 of IFRS 1 are eliminated because they have already served their intended purpose. Given the group does not adopt for the first time, it will not be applicable to the future consolidated annual accounts of the Group.

For IAS 28 it is clarified that the choice to measure at fair value through profit and loss can be made for each investment in associates and joint ventures in an investment base per investment, in the initial recognition. Neither the Company nor its affiliates qualify as capital organizations risk and, therefore, the modification is not expected to have an impact on future consolidated annual accounts.

Standards, amendments and interpretations applied to existing standards that cannot be adopted in advance or have not been adopted by the European Union

As of the date of signature of these consolidated annual accounts, the IASB and IFRIC had published the standards, amendments and interpretations described below, which have yet to be adopted by the European Union.

- IFRS 17 “Insurance contracts”.
- IFRS 2 (Amended) “Clarifications of classification and measurement of share based payment transactions”.

- CNIIF 22: "Foreign Currency Transactions and Advance Consideration".
- IAS 40 (Amended) " Investment property".
- IFRIC 23 " Uncertainty over Income Tax Treatments".
- IFRS 9 (Amendment): "Financial Instruments".
- IAS 28 (Amendment) "Investments in Associates and Joint Ventures".
- Annual Improvements to IFRS. Cycle 2015 to 2017:

The Group is analyzing the impacts that might have the new standards in the consolidated annual accounts, in case to be adopted by the European Union.

## 2.2. Principles of Consolidation

### Consolidation scope

The TÉCNICAS REUNIDAS Group is made up of TÉCNICAS REUNIDAS, S.A., the parent, and its subsidiaries and associates. The Group also has interests in jointly controlled entities and temporary joint ventures (hereinafter "UTES"). Exhibits I, II, III and IV to these notes contain additional information on the entities included in the consolidation scope.

Group companies hold interests of more than 20% in other companies in which they do not have significant influence.

For the purposes of preparing the consolidated annual accounts, a group is understood to exist when the parent company has one or more subsidiaries, i.e., companies it controls directly or indirectly.

The parent and certain subsidiaries also have interests in UTES and consortiums and recognise the relevant assets, liabilities, revenues and expenses on a proportionate basis. Exhibit IV lists the UTES and consortiums in which the Group companies have interests.

During the year 2017, the following changes occurred in the consolidation perimeter:

- The company Deporte Valdavia 2017, S.L.. Inc has been incorporated, participated at 100% by Técnicas Reunidas, S.A. as well as Valdavia Padel, S.L. and Valdavia Gym, SL. participated by Deportes Valdavia, S.L.
- The company KJT Engenharia Materiais has been unincorporated due to its liquidation.

During the year 2016, the following changes occurred in the consolidation perimeter:

- The company Técnicas Reunidas Canadá E&C. Inc has been incorporated, participated at 85% by Initec Plantas Industriales, S.A.U. and 15% by Técnicas Reunidas, S.A.

Otherwise, the following changes occurred:

- During 2016, the companies Layar Castilla, S.A. and its subsidiarie Explotaciones Varias, S.A. have been unincorporated due to the sale of the shares of the first one. As consequence of this operation there has been a profit of 757 thousand euro.
- The company Servihemo, S.A. participated at 100% by Heymo, S.A.U. as well as companies Técnicas Reunidas Sagemis, S.A. and Técnicas Reunidas UK, have been incorporated, both of them participated at 100% by Técnicas Reunidas, S.A.

There were no business combinations in 2017 and 2016.

### i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The subsidiaries are consolidated under the global integration included in the consolidated annual accounts all the assets, liabilities, incomes and exepenses and cashflows. Inter-company transactions, balances, income and expenses on



transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The non-controlling interests in results and equity of the subsidiaries show separately in the Consolidated Income Statement, Consolidated Balance sheet, Consolidated Statement of changes in Equity and the Consolidated Statement of the comprehensive income.

Exhibit I provides a breakdown of the identifying details of the subsidiaries included in the scope of consolidation by means of the full consolidation method.

## Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

## Disposal of subsidiaries

There were no disposals nor liquidations of subsidiaries in 2017 and 2016.

### ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/ (loss) of an associate' in the income statement.

Gains and losses arising from upstream and downstream transactions between the Group and its associates are recognized in the Group's annual accounts only to the extent that they correspond to the interests of other investors in the non-investor associates. Unrealized losses are eliminated unless the transaction provides evidence of impairment loss of the asset transferred. The accounting policies of associates have been modified when necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

In 2017 there was not any disposal of associate companies. In 2016 the participation in Layar Castilla S.A. was sold.

Exhibit II provides the identifying details of the associates included in the scope of consolidation using the equity method.

### iii) Joint ventures

The Group applies IFRS 11 to all joint arrangements. Investments in joint arrangements under IFRS 11 are classified as joint ventures or joint arrangements, depending on the contractual rights and obligations of each investor. The Técnicas Reunidas Group has assessed the nature of its joint arrangements and determined that they should be treated as joint operations.

In joint operations, a member has direct rights over the assets, liabilities, income and expenses of the entity in which it has an interest. In joint ventures, the member has a right to the entity's results or net assets and therefore recognises its interest using the equity method.

#### **iv) Equity method**

Under the equity method, interests in joint ventures are initially carried at cost and are adjusted subsequently to recognise the Group's share in profits and losses subsequent to the acquisition and movements in other comprehensive income. When the Group's share of the losses of a joint venture is equal to or exceeds its interest in the joint venture (including any long-term interest which, in substance, forms part of the Group's net investment in the joint ventures), the Group does not recognise any additional losses unless it has incurred liabilities or made payments on its behalf.

When the Group does not consolidate under the equity method an investment due to a loss of control, joint control or significant influence, any interest held in the company will be valued at its new fair value, with the change in the book value recognized in the income statement. This fair value become the initial book value in order to account afterwards the retain interest as an Associate, joint venture, or financial assets. In addition, any amount previously recognized in reference to that entity, is accounted as if the Group disposed directly had of the assets and liabilities. This can imply that the amounts previously recognized in other global results will be reclassified to results.

If the interest in the property of a joint venture or in a subsidiary is reduced, but the joint control or the significant influence remains, just a proportional part previously recognized in other comprehensive income will be reclassified to results, when appropriate.

Exhibit III provides the identifying details of the joint ventures included in the scope of consolidation under the proportionate method of consolidation for the years ended December 31, 2017 and 2016.

Unrealised gains on transactions between the Group and its joint ventures are eliminated on the basis of the Group's interest in them. Unrealised losses are also eliminated unless the transaction provides evidence of a loss due to impairment of the asset transferred. The accounting policies applied to joint ventures have been modified when necessary to ensure consistency with the policies adopted by the Group.

The impairment of the book value of the investments is accounted under the Equity method in accordance with the policy detailed in Note 2.8.

### **Temporary jointly controlled entities - UTEs**

A temporary joint venture or UTE is an arrangement between companies wishing to collaborate for a specified or unspecified period, during which a work, service or supply is performed or executed.

The UTE's balance sheet and income statement headings are added line by line to the balance sheet and income statement prepared by the venturer pro rata for its ownership interest in the joint venture, and the cash flows in the cash flow statement.

Exhibit IV identifies the UTEs whose financial information is recognised by the companies included in the scope of consolidation

## **2.3. Segment information**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 5).

Operating segment accounting policies are the same as the policies applied to prepare the accompanying consolidated annual accounts, as described herein.

The body with ultimate decision-making authority is the Board of Directors of the Parent Company.

## **2.4. Foreign currency transactions**

### **Functional and presentation currency**

Items included in the financial statements of each of the Group companies are measured using the currency of the principal economic environment in which the entity operates ("functional currency"). The Group's consolidated financial statements 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 at 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 other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses are recognised on a net basis in the income statement within finance income or expenses, as translation differences on foreign currency.

## Group companies

The results and balances of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) Income and expenses for each income statement are translated at average exchange rates;
- (iii) Equity items (except profit and loss headings) are translated at the historical exchange rate;
- (iv) All resulting translation differences are recognised as a separate component of other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and converted at the closing rate. The translation differences that arise are recognised in the statement of comprehensive income as "Foreign currency translation differences."

## 2.5. Property, plant and equipment

The Group follows the model of historical cost, therefore the property, plant and equipment are recognized at its initial cost discounting the accumulated depreciations and impairments, except in the case of lands, which are not depreciated and are presented net of impairments.

Historical cost includes expenses directly attributable to purchases of property, plant and equipment.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset only when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset may be reliably determined. All other repair and maintenance expenses are charged to the income statement in the year in which they are incurred.

The depreciation of the assets is calculated on a straight-line basis based on their estimated useful lives and residual values. The estimated useful lives of each asset category are as follows:

| Classification / Elements          | Useful Lives  |
|------------------------------------|---------------|
| Industrial structures and premises | 25 - 50 Years |
| Plant and machinery                | 5 - 10 Years  |
| Complex and general installations  | 12 - 17 Years |
| Furniture and office equipment     | 3 - 10 Years  |
| Data-processing equipment          | 4 Years       |
| Vehicles                           | 7 Years       |
| Other fixed assets                 | 7 - 10 Years  |

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

When the book value of an asset is higher than its estimated recoverable value, the carrying amount is immediately reduced.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other expenses" or "Other income" in the income statement. Own work capitalised is stated at production cost and recognised as revenue in the income statement.

## 2.6. Intangible assets

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is assigned to cash generating units (CGUs) for impairment testing purposes. Goodwill is allocated to those CGUs or groups of CGUs expected to benefit from the business combinations in which the goodwill arose, identified according to operating segments.

The recoverable amount of a CGU is the higher of its value in use and its fair value less sale costs. These calculations use 5-year cash flow projections based on financial budgets approved by management. Cash flows beyond this five-year period are extrapolated at constant growth rates.

Losses due to goodwill impairment are reviewed annually or more frequently if changing circumstances of events indicate potential impairment losses.

Impairment losses are recognised as expenses and are not reversed later.

### Computer software

Acquired computer software licenses are capitalised based on the costs incurred to acquire and bring the specific software to use. These costs are amortised over the assets' estimated useful lives (4 years).

Costs associated with developing or maintaining computer software programs are recognised as an expense when incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group 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 developer costs and an appropriate portion of relevant overhead. Capitalised computer software development costs are amortised over the programs' estimated useful lives (4 years).

### Concessions

Concessions refer to the administrative authorisations 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 recognised as revenue, operating expenses are expensed currently, while the intangible assets are amortised 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 a perfect state of repair. These maintenance and repair expenses are recognised in the income statement. No liabilities were recognised since the current value of the obligation is negligible.

## Research and development expenses

Research expenditure is recognised as an expense as incurred. Costs incurred in development projects are recognised as intangible assets when the following requirements are met:

- It is technically feasible to complete the production of the intangible asset so that it will be available for use or sale;
- Management intends to complete the intangible asset for use or sale;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Grants received for research and development projects are transferred to the income statement in accordance with the criteria for recognising research and development expenses in the income statement.

## 2.7. Borrowing costs

Borrowing costs incurred in the construction of a qualifying asset are capitalised during the period of time needed to complete and ready the asset for its intended use. The rest of the costs incurred are recognised in the consolidated income statement when they are incurred.

## 2.8. Impairment of non-financial assets

Assets that have indefinite useful lives and goodwill are not subject to depreciation/amortisation and are tested annually for impairment. The Group reviews the assets subject to depreciation/amortisation at each year-end for events or changes in circumstances which indicate that their carrying amount may not be recoverable.

An impairment loss is recognised when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value of an asset less costs to sell or the value in use, whichever is higher. Impairment losses assigned to the goodwill are not subject of reversal. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, i.e. cash-generating units. Impairment loss is recognised in the income statement.

The possible reversal of impairment losses on non-financial assets other than goodwill that suffer an impairment loss is reviewed on all dates for which financial information is presented.

## 2.9. Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit and loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management establishes the classification of investments at initial recognition and reviews the classification at each reporting date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are recognised initially at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit and losses are recognised initially at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive the attendant cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Interest income on financial assets at fair value through profit or loss is recognised in other income in the income statement when the Group's right to receive payment is established.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for amounts maturing more than 12 months from the end of the reporting period. This category also includes deposits and guarantees furnished to third parties. Loans and receivables are included in "Trade and other receivables" in the balance sheet. Loans and receivables are carried at amortised cost using the effective interest method.

The accounts receivables which does not generate interests in an explicit manner are measured at its nominate value, as long as the effect of not updating the cashflows financially is not significant. The subsequent measurement, in its case, is still at its nominated value.

## Financial assets at fair value through profit or loss

This category includes two sub-categories: financial assets held for trading and financial assets designated on initial recognition at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling it in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Assets in this category are classified as current assets if they are held for trading or are expected to be realised within 12 months from the balance sheet date. These financial assets are subsequently measured at fair value.

Realised and unrealised gains and losses resulting from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the year in which 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. These financial assets are subsequently measured at fair value. Unrealised gains and losses resulting from changes in the fair value of non-monetary instruments classified as available for sale are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses on investment securities.

The fair values of listed investments are based on prevailing purchase prices. If there is no active market for a financial asset (as in the case of unlisted securities), the Group establishes fair value by using valuation techniques such as analysis of recent transactions between knowledgeable and willing parties involving instruments which are substantially identical, as well as discounted cash flow analysis. In the event that neither of these two methods can be used to estimate fair value, the investments are carried at acquisition cost less any impairment losses.

## Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The legally enforceable right should not be contingent on future events and should be enforceable in the ordinary course of business and in the event of the companies or counterparty's default, insolvency or bankruptcy.

## Impairment of financial assets

### *Assets at amortized cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The main criteria used by the Group to identify objective evidence of an impairment loss include: significant financial difficulty of the obligor; breach of contract such as default or delinquency in payments, and the disappearance of an active market for a specific financial asset because of financial issues, among others.

The Group first assesses whether objective evidence of impairment exists. The loss is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate. The asset's carrying amount is reduced accordingly and the impairment loss is recognised in the income statement. If, subsequently, an impairment loss diminishes, and this reduction can be objectively attributed to an event occurring after the impairment loss was recognised, the previously recognised impairment is reversed with a credit to the consolidated income statement.

#### *Available-for-sale financial assets*

To determine whether equity instruments classified as available for sale are impaired, management assesses whether there has been a significant or protracted decline in the fair value of the securities to below cost. If there is any evidence of impairment of this class of available-for-sale financial assets, the cumulative loss, determined as the difference between acquisition cost and current fair value, less any impairment losses on that financial asset previously recognised in the income statement, is eliminated from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

## 2.10. Assets and liabilities classified as held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount is primarily to be recovered through a sale transaction, rather than for their continuing use, and sale is considered highly probable. They are valued at the lower of their carrying amount and their fair value less costs to sale, except for assets such as deferred tax assets, assets from employee benefits, financial assets and real estate investments 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 impairment of the asset (or disposal group) to fair value less costs to sale. A gain is recognized for any subsequent increase in fair value less costs to sale an asset (or disposable group), but not above the impairment loss previously recognized. Loss or gain not previously recognized at the date of sale of a non-current asset (or disposal group) is recognized on the date it is derecognized.

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

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

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

## 2.11. Inventories

Inventories include the cost of certain materials yet to be allocated to projects and costs incurred to submit bids when it is likely or certain that the contract will be secured or when it is known that the costs will be reimbursed or included in the revenues originating from the contract as well as the cost of some parking slots which are available for sale.

The costs associated with submitting offers for domestic and foreign contracts are taken to the income statement when incurred if it is not known or unlikely that the contract will be awarded on the date when the costs are incurred. The costs of presenting offers are recognised as inventory when it is likely or known that the contract will be awarded or when it is known that the cost will be reimbursed or included in the income from the contract.

The parking slots are initially recognized at acquisition cost, and after at the minor between the acquisition cost and the net realizable value.

## 2.12. Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The balances with due date greater than one year are measured at their nominal value, provided that the effect of not discounting the flows is not significant.

Trade receivables reserve is recorded when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

## 2.13. Cash and cash equivalents

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

The following expressions are used in the consolidated cash flow statement, which has been prepared using the indirect method:

- Cash flows: inflows and outflows of cash and cash equivalents (Note 16).
- Operating activities: the proceeds & payments related to revenue-producing activities of the Group and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of non-current assets and other investments not included in cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group that are not related to operating activities.

## 2.14. Share capital

Share capital is represented entirely by ordinary shares classified as equity.

Incremental costs directly attributable to the issue of new shares are presented in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the parent company's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the equity holders of the parent 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 cost and the corresponding income tax effects, is included in equity attributable to the equity holders of the parent.

## 2.15. Government grants

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

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and released to the income statement on a straight-line basis over the expected lives of the related assets.



Grants received for research and development projects are transferred to the income statement in accordance with the criteria for recognising research and development expenses in the income statement.

## 2.16. Trade payables

Trade accounts payable are payment obligations arising from the purchase of goods or services from suppliers in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Otherwise they are presented as non-current liabilities. Trade payables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method. The amounts due no longer than a year are measured at its nominated value as long as the effect of not discounting the cashflows is significant.

## 2.17. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the term of the borrowings using the effective interest method. Commissions paid for borrowing are recognized as transaction costs for the loan to the extent that it is probable that a part or the entire line will be available. In this case, commissions are deferred until the disposition occurs. To the extent that there is no evidence that it is probable that all or part of the credit line will be available, the commission is capitalized as an advance payment for liquidity services and is amortized over the period of the Credit availability.

Borrowings are eliminated from the balance sheet when the obligation specified in the contract has been paid, canceled or expired. The difference between the book value of a financial liability that has been canceled or transferred to another party and the consideration paid, including any non-cash or liability transferred asset assumed, is recognized in the income statement as other financial income or expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the end of the reporting period.

## 2.18. Current and deferred income tax

Tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement unless the tax relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity, as appropriate.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates the positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, recognising provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. 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 either accounting nor taxable profit or 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.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are only offset if the Group has a legally enforceable right to set off the recognised amounts and when they relate to income taxes levied by the same taxation authority on a single tax subject/entity, or in the event of different tax subjects/entities, when the Group intends to realise the asset and settle the liability on a net basis.

## 2.19. Employee benefits

### Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group 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 as a result of an offer of termination benefits 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.

### Bonus plans

The Group recognises a provision when it is contractually bound to make payment.

## 2.20. Provisions

The Group recognises provisions when it has a present legal or implied obligation as a result of past events, the settlement of which is expected to result in an outflow of resources and the amount of which can be reliably estimated. The Group does not recognise provisions for future operating losses although it does recognise provisions for engineering contracts expected to generate losses (Note 2.21).

Provisions are recorded based on the best estimate of the liability payable by the Group, 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, which are expected to be required to settle the obligation using a pre-tax rate that reflects the current market valuation of the temporary value of the money and the specific risks of the obligation.

## 2.21. 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 Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. The Group 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 the Group's businesses are fulfilled, as described below. In relation to inventories, the Group recognises revenue and profit/loss when the significant risks and rewards of ownership have been transferred to the buyer. The amount of revenue cannot not be reliably determined until all of the contingencies associated with the sale have been resolved. The Group's estimates are based on historical data, taking into account customer and transaction types, as well as the specific terms of each contract.

### Service agreements

Revenue from the rendering of services under service 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.

### Turnkey engineering projects

When the outcome of a contract cannot be reliably estimated, the relevant revenues are only recognised to the extent of the expenses recognized 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 recognized 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 recognized immediately as an expense. On the contrary, the profit recognition is accrued along the contract life and according to the percentage of completion.

The Group uses the percentage-of-completion method to calculate the amount to be recognized 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 services to be performed and costs to be incurred for each contract.

The Group recognizes 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 progress billings. Progress billings outstanding and retentions are included in trade and other accounts receivable.

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

The Group 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 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 Group 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 counter party 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**

Revenue from dividends is recognised when the shareholder's right to receive payment is established.

### **Interest income**

Interest income is recognised using the effective interest rate method.

## **2.22. Derivative financial instruments and hedging activities**

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

The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedges).

The Group 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 Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

A hedge is considered highly effective when the changes in fair value or cash flows of the underlying directly ascribable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument with an effectiveness rate in the 80%-125% range.

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

Note 10 disclose the fair value of the derivatives designated as hedges. The consolidated statement of comprehensive income shows the movements in the hedging reserve included in equity.

### **Cash flow hedges**

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in finance income or cost in the income statement.

Amounts deferred in equity are reclassified to the income statement in the year in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. 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.

### **Derivatives not qualifying for hedge accounting**

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 as finance income or cost in the income statement.

## **2.23. Leases**

Asset leases in which the Group acts as lessee and retains substantially all the risks and rewards of ownership of the assets are classed 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. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. The payment obligation under the lease, net of finance charges, is recognised in non-current borrowings, except for the portion falling due within 12 months. The interest component of the finance charge is taken to the income statement over the term of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. 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.

Leases arrangements where the lessor retains substantially all the risks and benefits inherent to ownership of the asset are classified as operating leases. In operating leases where the Group acts as lessee, the payments made (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

## **2.24. Dividend distribution**

The payment of dividends to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the year in which the dividends are approved by the Company's shareholders.

## **2.25. Environmental disclosures**

It is considered environmental activities any operation whose main purpose is prevent, reduce or repair the damage over the environment.

The expenses that comes from the protection or environmental improvement is allocated in the consolidated income for the year in which they are incurred. No matter when occurred the monetary or financial flows.

The accruals related to the probable responsibilities, from litigation in progress, indemnity payments, or pendant obligations of uncertain amount, no cover by the agreed policies, are recorded when the responsibility appear/born or with obligation which determine the indemnization payment.

Given the Group companies' lines of business, they have no environmental liabilities, expenses, assets, provisions or contingencies that could be significant with respect to the Group's equity, financial position or performance. For this reason, no specific breakdowns are provided in these notes to the financial statements regarding environmental disclosures.

## 2.26. Earnings per Share

### i) Basic earnings per share

Basic earnings per share are calculated by dividing:

- The profit attributable to the owners of the company, excluding any cost of the service of equity other than ordinary shares.
- Among the weighted average number of outstanding ordinary shares during the year, adjusted for elements incentives into ordinary shares issued during the year and excluding treasury shares.

### ii) Diluted earnings per share

For diluted earnings per share, the figures used to determine basic earnings per share are adjusted to take into account:

- The effect after tax profit of interest and other financial cost associated with potential ordinary shares with diluted effects; and
- The weighted average number of additional ordinary shares, that would have been a outstanding shares assuming the conversion of all potential dilutive ordinary shares.

## 3. FINANCIAL RISK MANAGEMENT

### 3.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Group's Finance Department, Business Units and Corporate Treasury Department following policies approved by the Board of Directors. This department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

#### a) Market risk

##### a.1) Exchange rate risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, particularly to the US dollar (USD) and, to a lesser extent, currencies tied to the USD. There is residual exposure to suppliers operating in other currencies (primarily, yens, Australian dollars, Canadian dollars, Turkish lira, Malaysian ringgit, Peruvian sol, Russian ruble and Kuwaiti dinar). Foreign exchange risk arises primarily on future commercial transactions and recognised assets and liabilities.

To manage the foreign exchange risk that derives from future transactions and recognised assets and liabilities, group companies use forward contracts, in accordance with the hedging policy in place, brokered by the Group's 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 Treasury Department is responsible for managing the net position in each foreign currency using external foreign exchange forward contracts. In addition, the Group 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 Group's risk management policy is based on hedging the most highly probable forecast transactions in each of the main currencies during the months the project is scheduled to be completed. 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 Group's business operations means that it is very common to contract transactions with customers in US dollars, while the corresponding costs are habitually denominated in multiple currencies, albeit principally US dollars and EUR. If the euro had depreciated / appreciated against the US dollar by a hypothetical 10% in 2017, leaving all other variables constant, consolidated profit before tax for the year would have been € 26,281 K higher / lower (2016: € 34,932 k), 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 2017, equity would have been € 34,228 higher / lower (2016: € 101,377 K higher / lower); 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).

The Group also has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. In general Group policy is to finance its foreign operations with borrowings denominated in the functional currency of that country, so that the open exposure relates only to the equity investment. The following chart shows the balances of the principal exposures in foreign currency as a result of equity investments in foreign operations:

|               | 2017    | 2016   |
|---------------|---------|--------|
| Bolivian Peso | 4,171   | 10,093 |
| Saudi Riyal   | 49,387  | 51,528 |
| Turkish Lira  | 107,558 | 56,725 |
| Peruvian SOL  | 94,978  | 31,234 |

### a.2) Price risk

The Group is exposed to price risk with respect to equity securities. Exposure to this risk is limited as the investments held by the Group and classified in the consolidated balance sheet at fair value through profit or loss correspond primarily to investments in fixed-income funds which invest in very short-term assets (see Note 15).

The Group is partially exposed to commodity price risk, metals and oil, to the extent that they affect the price of equipment and manufactured materials used in construction projects. Overall, all peer contractors operating in the sector effectively pass on these impacts in sales prices. The Group reduces and mitigates price risk through the policies established by management, which mainly consist of accelerating or slowing the rate of placements and selecting the currencies and countries of origin. An additional mechanism used by the Group to mitigate this risk takes the form of contracting formulae containing price resetting clauses for covering possible cost deviations.

### a.3) Cash flow interest rate risk

The Group 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 Group presents significant net cash balance (cash and cash equivalents in excess of borrowings) is positive. However, the Group maintains credit lines to cover the cashflow in the projects. Most of these credit lines are negotiated at variable interest rate referred to EURIBOR. In the current situation where EURIBOR is negative, it is considered that the variable interest rate negotiated in the credit lines are the best policy to minimize the impact of interest rate risk. Additionally, and as part of the control policy of the interest risk and the impact which the deviation in the may rise in the consolidated income statement, fix interest loan have been agreed and a new syndicated credit line has been negotiated with a 42% of such line also with a fix interest which the purpose of being secured against interest rate increases. If those occurred in the short tranches of the EURIBOR curve, in 2019, 2020 and 2021.

The exposure to floating interest at each year-end is as follows:

|  | 2017                  |                  |                | 2016                  |                  |                |
|--|-----------------------|------------------|----------------|-----------------------|------------------|----------------|
|  | Referenced to Euribor | Other benchmarks | Total          | Referenced to Euribor | Other benchmarks | Total          |
| Borrowings                                 | (376,298)             | (8,136)          | (384,434)      | (224,766)             | (15,369)         | (240,135)      |
| Interest-earning cash and cash equivalents | 130,357               | 439,582          | 569,939        | 138,981               | 549,288          | 688,269        |
| <b>Net cash position</b>                   | <b>(245,941)</b>      | <b>431,446</b>   | <b>185,505</b> | <b>(85,785)</b>       | <b>533,919</b>   | <b>448,134</b> |

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 2017 profit of 1,593 K € (2016: 1,082 K €).

## b) Credit risk

Credit risk is managed by the Group taking into account the following groups of financial assets:

- Assets arising from derivatives (Note 10) and sundry balances including cash and cash equivalents (Note 16).
- Trade and other receivable balances (Note 12).

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 Group's most important projects. These counterparties are generally state oil companies or multinationals.

At 31 December, our key customers represents the 81% of the total "Trade receivables" (within Trade and other receivables) (2016: 73%), and are tied to transactions with entities such as those described in the preceding paragraph. As a result, the Group considers credit risk 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.

The balance of trade receivables past due but not impaired at 31 December 2017 is € 233,688 k (2016: € 153,007 k), and primarily correspond to amounts past due by less than 6 months.

A large part of the credit risk is mitigated by the ad-hoc financing of the clients linked to the execution of the projects, which constitutes a double guarantee of recovery.

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.

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

Management monitors rolling forecasts of the Company's liquidity requirements as based on cash flow projections. As mentioned above, the strategy of self-financing projects results in significant net cash balances. Additionally, the Group has credit lines that offer an additional liquidity buffer; Management therefore believes that the Group's liquidity risk is low. The following is a breakdown of the significant liquidity parameters:

|  | 2017             | 2016             |
|--|------------------|------------------|
| Borrowings (Note 22)   | (384,434)        | (240,135)        |
| Financial assets at fair value through profit or loss - FAFV (Note 15) | 67,362           | 64,169           |
| Cash and cash equivalents (Note 16)                                    | 569,939          | 688,269          |
| Net cash balance and FAFV  | 252,867          | 512,303          |
| Net cash balance and FAFV  | 888,000          | 619,998          |
| <b>Total liquidity reserve</b>   | <b>1,140,867</b> | <b>1,132,301</b> |

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts shown in the table correspond to the balances resulting from application of the amortised cost method (carrying amounts), which essentially coincide with the undiscounted forecast cash flows associated with the liabilities. The balances payable within 12 months are equivalent to their carrying amounts, since the effect of discounting them is insignificant.

|  | Less than one year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|--|--------------------|-----------------------|-----------------------|--------------|
| <b>At 31 December 2017</b>                 |                    |                       |                       |              |
| Borrowings (note 22)                       | 292,219            | 92,215                |                       |              |
| Derivative financial instruments (note 10) | 28,423             | 2,489                 | –                     | –            |
| Trade and other payables (note 21)         | 2,796,013          | 288                   | –                     | –            |
| <b>Total</b>                               | <b>3,116,655</b>   | <b>94,992</b>         | <b>–</b>              | <b>–</b>     |
| <b>At 31 December 2016</b>                 |                    |                       |                       |              |
| Borrowings (note 22)                       | 84,923             | 155,212               | –                     | –            |
| Derivative financial instruments (note 10) | 147,092            | 4,383                 | –                     | –            |
| Trade and other payables (note 21)         | 2,607,276          | 409                   | –                     | –            |
| <b>Total</b>                               | <b>2,839,291</b>   | <b>160,004</b>        | <b>–</b>              | <b>–</b>     |

## 3.2. Capital risk management

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

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

The Group monitors capital on the basis of the leverage ratios set out below. This ratio is calculated as debt divided by capital. Debt is calculated as total borrowings. Capital is calculated as equity, as shown in the financial statements. The Group also monitors the ratio of net cash to capital.



|                                    | 2017      | 2016      |
|------------------------------------|-----------|-----------|
| Borrowings (Note 22)               | (384,434) | (240,135) |
| Net cash position & FAFV           | 252,867   | 512,303   |
| Equity                             | 463,304   | 441,826   |
| % Borrowings / Equity              | 82.98%    | 54.35%    |
| % Net Cash position & FAFV/ Equity | 54.58%    | 115.95%   |

### 3.3. Fair value

Financial instruments carried at fair value are grouped by valuation method based on the following valuation hierarchy:

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

The following table presents the Group's assets and liabilities that are measured at fair value:

| At 31 December 2017   | Level 1       | Level 2        | Level 3  | Total          |
|---|---------------|----------------|----------|----------------|
| <b>Assets</b>   |               |                |          |                |
| Financial assets at fair value through profit or loss (Note 15) | 67,362        | -              | -        | 67,362         |
| Hedging derivatives (Note 10)                                   | -             | 38,148         | -        | 38,148         |
| <b>Total assets</b>   | <b>67,362</b> | <b>38,148</b>  | <b>-</b> | <b>105,510</b> |
| <b>Liabilities</b>  |               |                |          |                |
| Hedging derivatives (Note 10)                                   | -             | 30,912         | -        | 30,912         |
| <b>Total liabilities</b>  | <b>-</b>      | <b>30,912</b>  | <b>-</b> | <b>30,912</b>  |
| At 31 de diciembre de 2016                                      | Level 1       | Level 2        | Level 3  | Total          |
| <b>Assets</b>   |               |                |          |                |
| Financial assets at fair value through profit or loss (Note 15) | 64,169        | -              | -        | 64,169         |
| Hedging derivatives (Note 10)                                   | -             | 17,535         | -        | 17,535         |
| <b>Total assets</b>   | <b>64,169</b> | <b>17,535</b>  | <b>0</b> | <b>81,704</b>  |
| <b>Liabilities</b>  |               |                |          |                |
| Hedging derivatives (Note 10)                                   | -             | 151,475        | -        | 151,475        |
| <b>Total liabilities</b>  | <b>-</b>      | <b>151,475</b> | <b>-</b> | <b>151,475</b> |

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

### a) Level 1 financial instruments

The fair value of financial instruments that are traded on active markets is based on quoted market prices at the balance sheet 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 on an arm's length basis. The quoted market price used for the financial assets held by the Group is the current bid price. These instruments are included in level 1.

### b) Level 2 financial instruments

The fair value of financial instruments that are not quoted in an active market (e.g. OTC derivatives) 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. If all the significant inputs required to calculate an instrument's fair value are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- In the case of derivatives the procedure consists of calculating the fair value by discounting the associated future cash flows using forward price curves.
- The current value of foreign currency futures is determined using the future exchange rates on the balance sheet date, discounted to the current value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value of the remaining financial instruments.

There were no switches between levels in either 2017 or 2016.

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 Group itself, where necessary.

In view of the characteristics of the Group'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.

The Group's derivatives are foreign currency and raw material 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 Group, 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 Group, the credit risk is applied to the Group's final settlement. To determine whether or not the settlement of the forwards will be favourable for the Group, a stochastic model is used to simulate the derivative's behaviour in different scenarios using complex mathematical models that consider the underlying's volatility and applying the resulting credit spread to each simulation.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in accordance with IFRS-EU requires that management make estimates and judgements that may affect the accounting policies adopted and the amount of related assets, liabilities, revenues, income and the scope of related disclosures. Estimates and assumptions are based, among other aspects, on experience or other events deemed reasonable in view of the facts and circumstances analysed. Estimated results, by definition, seldom equal the related actual results. The main estimates are the following:

## Income tax and deferred tax assets

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

As disclosed in Note 29, the Group's effective tax rate is 29.8 % in 2017 (27.5% in 2016).

In addition, the Group assesses the recoverability of deferred tax assets based on the existence of future taxable income against which these assets may be utilised.

## Useful lives of PPE and intangible assets

Group management determines the estimated useful lives and resulting depreciation and amortisation 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 Group reviews the useful lives of its assets. When changes are identified, the necessary adjustments are made on a prospective basis. Historically, there were no material adjustments recorded related to useful lives of assets.

## Accounts receivable

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

## 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 fulfil the applicable accounting requirements. Group 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.

## Revenue recognition

The Group uses the percentage-of-completion method to recognise revenue. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed. 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 profits. 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 Group makes significant estimates relating to 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 in service revenue when they are approved by the final customer or when it is probable that the Group will receive an inflow of funds.

## Fair value of unlisted financial instruments

The Group calculates the fair value of financial instruments (financial assets and liabilities) that are not traded on an active market through estimates made using a number of methods and assumptions that are based mainly on market conditions at each balance sheet date. The Group 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 Group 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.

## Concession impairment

The estimated recoverable value of the concessions which the Group operates, has been determined by evaluating the different external and internal circumstances that could give rise to signs of impairment, such as the market value of the asset, changes in business plans, changes in management or in the environment (legal, fiscal, economic, etc.), interest rate evolution, obsolescence or physical impairment.

In the application of accounting policies, different judgments have not been applied to the estimates detailed above.

# 5. SEGMENT INFORMATION

The Group classifies its operating segments as follows:

- Oil and Gas.
- Power.
- Infrastructure and Industry.

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

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

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

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

The operating segment analysis is based on an assessment of the segments' operating profit, adjusted for unallocated Group overhead. Also, the Group manages financing and taxation on a centralised basis. As a result, finance income and cost and income tax have not been allocated by segment. Additionally, fixed assets are not assigned and nor is the relevant depreciation or impairment as they are not considered to be significant.

No sales were made between the Group's operating segments in the years presented.

|  | Oil and gas              |                  | Power          |                | Infrastructure & other |                | Unallocated    |                | Group            |                  |
|--|--------------------------|------------------|----------------|----------------|------------------------|----------------|----------------|----------------|------------------|------------------|
|  | 2017                     | 2016             | 2017           | 2016           | 2017                   | 2016           | 2017           | 2016           | 2017             | 2016             |
|  | <b>Segment reporting</b> |                  |                |                |                        |                |                |                |                  |                  |
| Revenue  | 4,281,516                | 4,266,172        | 684,340        | 395,939        | 102,087                | 130,499        | –              | –              | 5,067,944        | 4,792,610        |
| Operating profit                                   | 167,509                  | 270,317          | 37,952         | 21,325         | (4,187)                | (8,174)        | (100,878)      | (91,532)       | 100,396          | 191,936          |
| Net finance income (Note 28)                       | –                        | –                | –              | –              | –                      | –              | (6,920)        | 3,991          | (6,920)          | 3,991            |
| Share in profit (loss) of associates               | 10                       | 38               | 765            | 904            | (3,063)                | (3,471)        | –              | –              | (2,288)          | (2,529)          |
| Profit before tax                                  | –                        | –                | –              | –              | –                      | –              | –              | –              | 91,188           | 193,398          |
| Income tax expense                                 | –                        | –                | –              | –              | –                      | –              | (22,173)       | (53,197)       | (27,173)         | (53,197)         |
| Profit for continuing operations                   | –                        | –                | –              | –              | –                      | –              | –              | –              | 64,015           | 140,201          |
| Lost from discontinued operations                  |                          |                  |                |                |                        |                |                |                | (5,049)          | (11,014)         |
| Profit for the year                                |                          |                  |                |                |                        |                |                |                | 58,966           | 129,187          |
| <b>Assets and liabilities by operating segment</b> |                          |                  |                |                |                        |                |                |                |                  |                  |
| Assets   | 3,028,068                | 2,901,126        | 249,848        | 194,927        | 194,595                | 199,694        | 399,162        | 289,213        | 3,871,672        | 3,584,960        |
| Associates   | 3,576                    | 3,168            | 7,152          | 6,603          | 3,371                  | 4,600          | 0              | 0              | 14,100           | 14,371           |
| <b>Total assets</b>                                | <b>3,031,644</b>         | <b>2,904,294</b> | <b>257,000</b> | <b>201,530</b> | <b>197,966</b>         | <b>204,294</b> | <b>399,162</b> | <b>289,213</b> | <b>3,885,772</b> | <b>3,599,331</b> |
| Liabilities  | 2,469,191                | 2,652,816        | 327,171        | 191,019        | 50,683                 | 61,610         | 575,422        | 252,060        | 3,422,468        | 3,157,505        |
| Additions to non-current assets (Notes 6 and 7)    | 3,435                    | 21,517           | 57             | 39             | 571                    | 956            | 9,819          | 5,014          | 13,882           | 27,526           |
| <b>Other operating segment disclosures</b>         |                          |                  |                |                |                        |                |                |                |                  |                  |
| Depreciation of PPE (Note 6)                       | –                        | –                | –              | –              | –                      | –              | (19,460)       | (14,287)       | (19,460)         | (14,287)         |
| Amortisation of intangible assets (Note 7)         | –                        | –                | –              | –              | –                      | –              | (2,024)        | 3,469          | (2,024)          | 3,469            |
| Impairment of trade receivables (Note 11)          | –                        | –                | –              | –              | –                      | –              | (497)          | (638)          | (497)            | (638)            |

Third-party customer revenue is allocated according to the country where the client is located. The breakdown is as follows:

| Revenue from third-party customers | 2017             | 2016             |
|------------------------------------|------------------|------------------|
| Spain                              | 71,308           | 97,003           |
| Middle East                        | 3,214,003        | 2,027,019        |
| America                            | 648,776          | 1,131,274        |
| Asia                               | 255,618          | 623,677          |
| Europe                             | 552,643          | 326,120          |
| Mediterranean                      | 325,596          | 587,517          |
|                                    | <b>5,067,944</b> | <b>4,792,610</b> |

Income from the Middle East geographical refers primarily to operations in Saudi Arabia, Abu Dhabi, Kuwait and Oman; in America the income comes primarily from operations in Peru, the Dominican Republic, Canada and Bolivia; in Asia, there were operations in Malaysia and Bangladesh; in Europe the operations were focused primarily in Russia, Belgium, Portugal, Norway and Poland; and in the Mediterranean operations were focused basically in Turkey and Algeria, among others.

The revenue generated by the Group's top five customers accounted for 72% of the 2017 total (2016: 67%). Revenue generation by customers who individually accounted for over 10% of total consolidated revenue in 2017 amounted to 2,702 million € (2016: € 2,289 million).

All the assets and liabilities allocated to the operating segments are measured using the same criteria as are outlined in Note 2. These assets and liabilities are allocated by region based on their physical location. The geographic breakdown of assets and investments is as follows:

|               | Assets           |                  | Additions PP&E |               |
|---------------|------------------|------------------|----------------|---------------|
|               | 2017             | 2016             | 2017           | 2016          |
| Spain         | 343,343          | 315,471          | 590            | 987           |
| Middle East   | 2,289,084        | 1,660,548        | 1,433          | 8,386         |
| Americas      | 414,706          | 537,610          | 1,521          | 1,384         |
| Asia          | 169,100          | 412,628          | 81,58          | 206           |
| Europe        | 239,136          | 170,257          | 54,696         | 2             |
| Mediterranean | 179,762          | 334,606          | 383            | 11,547        |
| <b>Total</b>  | <b>3,635,131</b> | <b>3,431,120</b> | <b>4,063</b>   | <b>22,512</b> |
| Associates    | 14,100           | 14,371           | –              | –             |
| Unallocated   | 236,543          | 153,840          | 9,819          | 5,015         |
|               | <b>3,885,773</b> | <b>3,599,331</b> | <b>13,882</b>  | <b>27,527</b> |

A reconciliation of reportable segment assets and liabilities to total assets and liabilities is provided as follows:

|   | 2017             | 2016             |  | 2017             | 2016             |
|---|------------------|------------------|--|------------------|------------------|
| Reportable segment assets                 | 3,486,610        | 3,310,118        | Reportable segment liabilities           | 2,847,045        | 2,905,446        |
| Unallocated:                              |                  |                  | Unallocated:                             |                  |                  |
| Non-current assets                        | 237,362          | 207,229          | Non-current liabilities                  | 94,907           | 152,344          |
| Current assets                            | 161,802          | 81,983           | Impairment provisions                    | 38,607           | 32,419           |
| <b>Total assets per the balance sheet</b> | <b>3,885,773</b> | <b>3,599,331</b> | Current liabilities                      | 441,909          | 67,296           |
|   |                  |                  | <b>Total liabilities per the balance</b> | <b>3,422,469</b> | <b>3,157,504</b> |

## 6. PROPERTY, PLANT AND EQUIPMENT

Detail and changes items comprising property, plant and equipment are as follows:

| Cost                               | Land and buildings | Plant and machinery | Furniture and equipment | PPE under construction | Other PPE     | Total          |
|------------------------------------|--------------------|---------------------|-------------------------|------------------------|---------------|----------------|
| <b>Balance at 1 January 2016</b>   | <b>3,755</b>       | <b>57,234</b>       | <b>64,802</b>           | <b>2,537</b>           | <b>16,818</b> | <b>145,146</b> |
| Additions                          | 2                  | 2,072               | 12,529                  | –                      | 425           | 15,028         |
| Decreases                          | (11)               | (1,604)             | (880)                   | –                      | (134)         | (2,629)        |
| Incorporations to perimeter        | –                  | 8                   | 134                     | –                      | –             | 142            |
| Other movements                    | –                  | (237)               | (864)                   | –                      | –             | (1,101)        |
| <b>Balance at 31 December 2016</b> | <b>3,746</b>       | <b>57,473</b>       | <b>75,721</b>           | <b>2,537</b>           | <b>17,109</b> | <b>156,586</b> |
| Balance at 1 January 2017          | 14                 | 6,017               | 6,497                   | –                      | 188           | 12,716         |
| Additions                          | –                  | (3,206)             | (9,795)                 | –                      | (247)         | (13,249)       |
| Decreases                          | –                  | 97                  | 10,986                  | –                      | (11,083)      | –              |
| Transfers                          | (207)              | 58                  | (4,484)                 | –                      | (353)         | (4,986)        |
| <b>Translations</b>                | <b>3,553</b>       | <b>60,439</b>       | <b>78,924</b>           | <b>2,537</b>           | <b>5,614</b>  | <b>151,067</b> |
| <b>Balance at 31 December 2017</b> |                    |                     |                         |                        |               |                |

| Accumulated depreciation and impairment        | Land and buildings | Plant and machinery | Furniture and equipment | PPE under construction | Other PPE     | Total          |
|--|--------------------|---------------------|-------------------------|------------------------|---------------|----------------|
| <b>Balance at 1 January 2016</b>               | <b>951</b>         | <b>30,364</b>       | <b>43,253</b>           | <b>2,537</b>           | <b>3,861</b>  | <b>80,966</b>  |
| Additions                                      | 155                | 5,002               | 6,012                   | –                      | 3,118         | 14,287         |
| Decreases                                      | –                  | (98)                | (532)                   | –                      | (518)         | (1,148)        |
| Incorporations to perimeter                    | –                  | 3                   | 37                      | –                      | –             | 40             |
| Other movements                                | –                  | (59)                | (370)                   | –                      | –             | (429)          |
| <b>Balance at 31 December 2016</b>             | <b>1,106</b>       | <b>35,212</b>       | <b>48,400</b>           | <b>2,537</b>           | <b>6,461</b>  | <b>93,716</b>  |
| Additions                                      | 239                | 14,222              | 4,594                   | –                      | 404           | 19,460         |
| Decreases                                      | –                  | (411)               | (2,763)                 | –                      | (192)         | (3,366)        |
| Transfers                                      | –                  | 405                 | 2,517                   | –                      | (2,922)       | –              |
| Translations differences                       | (62)               | (332)               | (2,298)                 | –                      | (262)         | (2,954)        |
| <b>Balance at 31 December 2017</b>             | <b>1,284</b>       | <b>49,096</b>       | <b>50,450</b>           | <b>2,537</b>           | <b>3,489</b>  | <b>106,855</b> |
| <b>Net carrying amount at 1 January 2016</b>   | <b>2,804</b>       | <b>26,870</b>       | <b>21,549</b>           | <b>–</b>               | <b>12,957</b> | <b>64,180</b>  |
| <b>Net carrying amount at 31 December 2016</b> | <b>2,640</b>       | <b>22,261</b>       | <b>27,321</b>           | <b>–</b>               | <b>10,648</b> | <b>62,870</b>  |
| <b>Net carrying amount at 31 December 2017</b> | <b>2,270</b>       | <b>11,343</b>       | <b>28,474</b>           | <b>–</b>               | <b>2,125</b>  | <b>44,212</b>  |

Land and buildings includes office buildings that are owned by certain Group companies.

Property, plant and equipment under construction relate to the engineering costs arising from the design and construction of a battery and fluorescent tube recycling plant by a Group company. Following the Group's analysis of the project, there are fully impaired.

At 31 December 2017, the Group carried items of property, plant and equipment located outside Spain with an original cost of € 53,739 k (2016: € 50,656 k) and accumulated depreciation of € 38,242 k (2016: € 20,516 k).

The Group's policy is to take out all insurance policies deemed necessary to cover risks that could affect its property, plant and equipment.



## 7. GOODWILL AND OTHER INTANGIBLE ASSETS

Detail and changes items comprising goodwill and other intangible assets are as follows:

| Cost                               | Concessions   | Software and other intangible assets | Subtotal      | Goodwill     | Total         |
|------------------------------------|---------------|--------------------------------------|---------------|--------------|---------------|
| <b>Balance at 1 January 2016</b>   | <b>64,583</b> | <b>19,670</b>                        | <b>84,253</b> | <b>1,242</b> | <b>85,495</b> |
| Additions                          | –             | 1,669                                | 1,669         | –            | 1,669         |
| Decreases                          | –             | (5)                                  | (5)           | –            | (5)           |
| Incorporations to perimeter        | 9,775         | –                                    | 9,775         | –            | 9,775         |
| Transfers                          | (73,467)      | 260                                  | (73,207)      | –            | (73,207)      |
| <b>Balance at 31 December 2016</b> | <b>891</b>    | <b>21,594</b>                        | <b>22,485</b> | <b>1,242</b> | <b>23,727</b> |
| <b>Balance at 1 January 2017</b>   | <b>891</b>    | <b>21,594</b>                        | <b>22,485</b> | <b>1,242</b> | <b>23,727</b> |
| Additions                          | –             | 1,166                                | 1,166         | –            | 1,166         |
| Decreases                          | –             | (4)                                  | (4)           | –            | (4)           |
| Transfers                          | –             | –                                    | –             | –            | –             |
| <b>Translations differences</b>    | <b>3</b>      | <b>(170)</b>                         | <b>(167)</b>  | <b>–</b>     | <b>(167)</b>  |
| <b>Balance at 31 December 2017</b> | <b>894</b>    | <b>22,586</b>                        | <b>23,480</b> | <b>1,242</b> | <b>24,722</b> |

| Accumulated amortisation and impairment losses | Concessions   | Software and other intangible assets | Subtotal      | Goodwill     | Total         |
|--|---------------|--------------------------------------|---------------|--------------|---------------|
| <b>Balance at 1 January 2016</b>               | <b>4,951</b>  | <b>14,743</b>                        | <b>19,694</b> | <b>–</b>     | <b>19,694</b> |
| Additions                                      | 1,502         | 1,967                                | 3,469         | –            | 3,469         |
| Decreases                                      | –             | –                                    | –             | –            | 0             |
| Incorporations to perimeter                    | 283           | –                                    | 283           | –            | 283           |
| Transfer                                       | (6,431)       | (75)                                 | (6,506)       | –            | (6,506)       |
| <b>Balance at 31 December 2016</b>             | <b>305</b>    | <b>16,635</b>                        | <b>16,940</b> | <b>–</b>     | <b>16,940</b> |
| Additions                                      | 43            | 2,024                                | 2,067         | –            | 2,067         |
| Decreases                                      | –             | (4)                                  | (4)           | –            | (4)           |
| Transfer                                       | –             | –                                    | –             | –            | –             |
| Translations differences                       | –             | (131)                                | (131)         | –            | (131)         |
| <b>Balance at 31 December 2017</b>             | <b>348</b>    | <b>18,524</b>                        | <b>18,871</b> | <b>–</b>     | <b>18,871</b> |
| <b>Net carrying amount at 1 January 2016</b>   | <b>59,632</b> | <b>4,927</b>                         | <b>64,559</b> | <b>1,242</b> | <b>65,801</b> |
| <b>Net carrying amount at 31 December 2016</b> | <b>586</b>    | <b>4,959</b>                         | <b>5,545</b>  | <b>1,242</b> | <b>6,787</b>  |
| <b>Net carrying amount at 31 December 2017</b> | <b>546</b>    | <b>4,062</b>                         | <b>4,609</b>  | <b>1,242</b> | <b>5,851</b>  |

In 2017 research and development expense charged to the income statement amounts to € 3,088 k (2016: € 2,843 k).

During 2016, the net book value of the concessions of Complejo Deportivo Alcobendas and the Sports Complex, parking and public spaces in San Sebastián de los Reyes - La Viña Comercial Shopping Center were transferred to the heading "Assets held for sale", since its sale is considered highly probable (Note 11).

The ownership and user's licences for the computer software acquired from third parties are recorded under Computer Applications. The Computer Applications balance does not include amounts linked to the internal development of computer programmes. The additions during the year referred mainly to the acquisition of management software licences.

No financial expenses were capitalised in 2017 and 2016.

The concession of Centro Comercial La Viña became integrated to 100%. This effect appears in the epigraph "Incorporations to perimeter".

## Goodwill impairment testing

As set out in Note 2.8. Técnicas Reunidas implemented a procedure in which at year-end is the possible impairment of goodwill is assessed. Goodwill is impaired when the carrying value of the CGU to which the asset belongs is less than its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use is taken to be the present value of estimated future cash flows. Goodwill is assigned to the cash generating unit (CGU) identified as Eurocontrol, S.A., an 80%-owned Group company. The cash generating unit identified pertains to the business segment designated as 'Infrastructure and industry' in Note 5 and its operations are located in Spain, Impairment tests were performed at 31 December 2017 and 31 December 2016 and no impairment losses were recognised.

## Concessions

This caption includes the concessions for the management of the parking in Huerca-Overa (Almería), and the parking in Alcobendas. The most relevant aspects regarding such agreements of public services are as follows:

|   | Concession                                       | Term     | Remuneración | Rescate                               |
|---|--|----------|--------------|---------------------------------------|
| 1 | Underground car park at Huerca - Overa (Almería) | 30 years | User charges | Subject to successive term extensions |
| 2 | Alcobendas underground car park                  | 75 years | User charges | At end of concession term             |

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

## 8. INVESTMENTS IN ASSOCIATES

Detail and changes in investments in associates are as follows:

|                        | 2017          | 2016          |
|------------------------|---------------|---------------|
| <b>Opening balance</b> | <b>13,128</b> | <b>4,889</b>  |
| Additions              | 3,182         | 14,941        |
| Derecognitions         | (633)         | (3,644)       |
| Perimeter change       | (3)           | (529)         |
| Share of profit/loss   | (2,288)       | (2,529)       |
| <b>Closing balance</b> | <b>13,386</b> | <b>13,128</b> |

The amount of this heading shows the participation of the associates' equity (no control). At 31 December 2017, it mainly corresponds to the equity of the entities Minatrico S. de R.L. de C.V. and Empresarios Agrupados Internacional, S.A.

The additions correspond, mainly, to the contributions to the water treatment project.

The presentation date of the financial statements of all the associates agrees to the presentation date of the parent company's financial statements. The Group's interest in its principal associates, all of which are unlisted, is as follows:

| Name                                      | County of incorporation | Assets | Liabilities | Revenues | Profit/(Loss) | % ownership interest |
|---|-------------------------|--------|-------------|----------|---------------|----------------------|
| <b>2017</b>                               |                         |        |             |          |               |                      |
| Empresarios Agrupados Internacional, S.A. | Spain                   | 49,150 | 33,267      | 50,640   | 1,779         | 43.00%               |
| Ibérica del Espacio, S.A.                 | Spain                   | 34,758 | 28,546      | 9,405    | (2,247)       | 50.00%               |
| Empresarios Agrupados, A.I.E.             | Spain                   | 5,203  | 4,453       | 19,223   | –             | 43.00%               |
| Master S.A. de Ingeniería y Arquitectura  | Spain                   | 5,863  | 5,200       | 709      | (264)         | 40.00%               |
| Ebramex S. de R.L. de C.V                 | Mexico                  | 217    | 11,228      | –        | (1,563)       | 33.33%               |
| Minatrico S. de R.L. de C.V.              | Mexico                  | 11,786 | 417         | –        | 1,595         | 33.33%               |
| Water treatment project                   | Spain                   | 31,519 | 99,773      | 934      | (5,503)       | 33.33%               |

| Name                                      | County of incorporation | Assets | Liabilities | Revenues | Profit/(Loss) | % ownership interest |
|---|-------------------------|--------|-------------|----------|---------------|----------------------|
| <b>2016</b>                               |                         |        |             |          |               |                      |
| Empresarios Agrupados Internacional, S.A. | Spain                   | 41,886 | 31,408      | 43,871   | 2,103         | 43.00%               |
| Ibérica del Espacio, S.A.                 | Spain                   | 35,901 | 27,442      | 10,484   | 401           | 50.00%               |
| Empresarios Agrupados, A.I.E.             | Spain                   | 5,235  | 4,485       | 22,759   | –             | 43.00%               |
| Master S.A. de Ingeniería y Arquitectura  | Spain                   | 5,067  | 4,141       | 4,350    | (131)         | 40.00%               |
| Ebramex S, de R.L. de C.V                 | Mexico                  | 249    | 10,683      | 768      | (792)         | 33.33%               |
| Minatrico S, de R.L. de C.V.              | Mexico                  | 11,198 | 404         | –        | 906           | 33.33%               |
| Water treatment project                   | Spain                   | 32,065 | 94,816      | 473      | (19,281)      | 33.00%               |

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This balance relates to minor investments in unlisted companies in which the Group does not have significant influence. Due to the fact that these are residual investments in companies that are not material to the Group and the impossibility of using valuation methods for measurement purposes, these investments are carried at acquisition cost.

No impairment provisions were recognised on available-for-sale financial assets in 2017 and 2016. There have been no movements.

## 10. FINANCIAL INSTRUMENTS

### 10.1.a. Financial instruments by category

The table below breaks down financial assets (excluding trade and other receivables and cash and cash equivalents) and financial liabilities (excluding trade accounts payable) at 31 December 2017 and 31 December 2016 by nature and category for measurement purposes:

At 31 December 2017

| Financial assets:                           | Financial assets at fair value through profit or loss (Note 15) | Available-for-sale (Note 9) | Loans and receivables (Note 14) | Hedging derivatives (Note 10.1.b) |
|---|---|-----------------------------|---------------------------------|-----------------------------------|
| <b>Nature/category</b>                      |   |                             |                                 |                                   |
| Equity instruments                          | –   | 1,016                       | –                               | –                                 |
| Derivatives (Note 10.1.b)                   | –   | –                           | –                               | 361                               |
| Other financial assets                      | –   | –                           | 18,422                          | –                                 |
|   | <b>–</b>  | <b>1,016</b>                | <b>18,422</b>                   | <b>361</b>                        |
| <b>Non-current</b>                          | –   | –                           | –                               | 37,787                            |
| Derivatives (Note 10.1.b)                   | 67,362  | –                           | 16,484                          | –                                 |
| Other financial assets                      | 67,362  | –                           | 16,484                          | 37,787                            |
| <b>Current</b>                              | <b>67,362</b>   | <b>1,016</b>                | <b>34,906</b>                   | <b>38,148</b>                     |
| <b>Total financial assets at 31/12/2017</b> |   |                             |                                 |                                   |

A 31 de diciembre de 2016

| Financial assets:                           | Financial assets at fair value through profit or loss (Note 15) | Available-for-sale (Note 9) | Loans and receivables (Note 14) | Hedging derivatives (Note 10.1.b) |
|---|---|-----------------------------|---------------------------------|-----------------------------------|
| <b>Nature/category</b>                      |   |                             |                                 |                                   |
| Equity instruments                          | –   | 1,016                       | –                               | –                                 |
| Derivatives (Note 10.1.b)                   | –   | –                           | –                               | 2,780                             |
| Other financial assets                      | –   | –                           | 20,789                          | –                                 |
| <b>Non-current</b>                          | <b>–</b>  | <b>1,016</b>                | <b>20,789</b>                   | <b>2,780</b>                      |
| Derivatives (Note 10.1.b)                   | –   | –                           | –                               | 14,755                            |
| Other financial assets                      | 64,169  | –                           | 16,677                          | –                                 |
| <b>Current</b>                              | <b>64,169</b>   | <b>–</b>                    | <b>16,677</b>                   | <b>14,755</b>                     |
| <b>Total financial assets at 31/12/2016</b> | <b>64,169</b>   | <b>1,016</b>                | <b>37,466</b>                   | <b>17,535</b>                     |

| Financial liabilities              | 31 December 2017         |                     | 31 December 2016         |                     |
|------------------------------------|--------------------------|---------------------|--------------------------|---------------------|
|                                    | Trade and other payables | Hedging derivatives | Trade and other payables | Hedging derivatives |
| <b>Nature/category</b>             |                          |                     |                          |                     |
| Borrowings (Note 22)               | 92,215                   | –                   | 155,212                  | –                   |
| Derivates (10.1.b)                 | –                        | 2,489               | –                        | 4,383               |
| Other financial liabilities        | 330                      | –                   | 451                      | –                   |
| <b>Non-current</b>                 | <b>92,545</b>            | <b>2,489</b>        | <b>155,663</b>           | <b>4,383</b>        |
| Borrowings (Note 22)               | 292,219                  | –                   | 84,923                   | –                   |
| Derivates (10.1.b)                 | –                        | 28,423              | –                        | 147,092             |
| Other financial liabilities        | 36,329                   | –                   | 36,733                   | –                   |
| <b>Current</b>                     | <b>328,548</b>           | <b>28,423</b>       | <b>121,656</b>           | <b>147,092</b>      |
| <b>Total financial liabilities</b> | <b>421,093</b>           | <b>30,912</b>       | <b>277,319</b>           | <b>151,475</b>      |

In relation to trade and other receivables balances, a high proportion of these balances refer to operations with private sector clients, a very significant part of these balances are referred to national and international high credit rating companies (national and international) which do not have default history. The global position of Trade and other receivables, is periodically monitored, as well as an individual analysis of the most significant exposures is performed, the Group considers that credit risk is very limited.

## 10.1.b. Derivative financial instruments

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

|  | 2017          |               | 2016          |                |
|--|---------------|---------------|---------------|----------------|
|  | Assets        | Liabilities   | Assets        | Liabilities    |
| Foreign exchange forwards – cash flow hedges | 38,148        | 29,938        | 17,499        | 150,171        |
| Forward contracts on commodities             | –             | 974           | 36            | 1,304          |
| <b>Total</b>                                 | <b>38,148</b> | <b>30,912</b> | <b>17,535</b> | <b>151,475</b> |
| Non-current portion                          | 361           | 2,489         | 2,780         | 4,383          |
| Current portion                              | 37,787        | 28,423        | 14,755        | 147,092        |

The derivative financial instruments contracted by the Group refer primarily to the FX forwards to cover highly probable future cash flows.

The Group evaluates the effectiveness of hedges by conducting prospective and retrospective efficacy tests in which the variance in hedged cash flows are compared with the variance in the cash flows of the assigned derivative.

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

| Instrument type                           | Fair value<br>(Euro<br>Thousand)<br>2017 | Currency | Maturities notional (Thousand) |         |      |           |
|---|--|----------|--------------------------------|---------|------|-----------|
|   |  |          | 2018                           | 2019    | 2020 | Total     |
| <b>Foreign currency forward contracts</b> |  |          |                                |         |      |           |
| US Dollar/ Swiss Franc                    | 294                                      | CHF      | 5,700                          | 13,300  | –    | 19,000    |
| US Dollar/ Kuwait Dinar                   | 765                                      | KWD      | 56,889                         | –       | –    | 56,889    |
| Yen JPY/Euro                              | 247                                      | JPY      | 771,000                        | –       | –    | 771,000   |
| US Dollar / Euro                          | 36,576                                   | USD      | 1,170,075                      | –       | –    | 1,170,075 |
| Dinar Kuwait / Euro                       | 103                                      | KWD      | –                              | 340     | –    | 340       |
| Polish Zloty / Euro                       | 3  | PLN      | 2,135                          | –       | –    | 2,135     |
| US Dollar/ Pound GBP                      | 43                                       | USD      | 2,120                          | –       | –    | 2,120     |
| US Dollar / Yen JPY                       | 59                                       | USD      | 2,599                          | –       | –    | 2,599     |
| US Dollar / Mexican Peso                  | 56                                       | MXN      | –                              | 530,410 | –    | 530,410   |
| NOK / Euro                                | 2  | NOK      | 17,000                         | –       | –    | 17,000    |
| <b>Assets</b>                             | <b>38,148</b>                            |          |                                |         |      |           |

| Instrument type                           | Fair value<br>(Euro<br>Thousand)<br>2017 | Currency | Maturities notional (Thousand) |        |      |         |
|---|--|----------|--------------------------------|--------|------|---------|
|   |  |          | 2018                           | 2019   | 2020 | Total   |
| <b>Foreign currency forward contracts</b> |  |          |                                |        |      |         |
| Dinar Kuwait / Euro                       | 2,595                                    | KWD      | 950                            | 8,700  | –    | 9,650   |
| Yen JPY/Euro                              | 1,117                                    | JPY      | 830,000                        | –      | –    | 830,000 |
| Canadian Dolar / Euro                     | 88                                       | CAD      | 39,830                         | –      | –    | 39,830  |
| Pound GBP / Euro                          | 194                                      | GBP      | 13,850                         | –      | –    | 13,850  |
| US Dollar / Dinar Kuwait                  | 710                                      | USD      | 56,879                         | –      | –    | 56,879  |
| US Dollar / Pound GBP                     | 173                                      | USD      | 3,857                          | –      | –    | 3,857   |
| US Dollar / Euro                          | 23,158                                   | USD      | 228,075                        | –      | –    | 228,075 |
| US Dolar / Yen JPY                        | 1,524                                    | USD      | 15,086                         | –      | –    | 15,086  |
| Polish Zloty / Euro                       | 202                                      | PLN      | 49,151                         | –      | –    | 49,151  |
| US Dollar / Mexican Peso                  | 84                                       | MXN      | 650,000                        | –      | –    | 650,000 |
| US Dollar / NOK                           | 93                                       | NOK      | 8,186                          | –      | –    | 8,186   |
| Raw Material                              | 974                                      | USD/EUR  |                                | 29,377 | –    | 29,377  |
| <b>Liabilities</b>                        | <b>30,912</b>                            |          |                                |        |      |         |
| <b>Net amount</b>                         | <b>7,236</b>                             |          |                                |        |      |         |

| Instrument type                           | Fair value<br>(Euro<br>Thousand)<br>2016 | Currency  | Maturities notional (Thousand) |         |        |         |
|---|--|-----------|--------------------------------|---------|--------|---------|
|   |  |           | 2017                           | 2018    | 2019   | Total   |
| <b>Foreign currency forward contracts</b> |  |           |                                |         |        |         |
| Yen JPY/ Euro                             | 405                                      | Yen       | 548,000                        |         |        | 548,000 |
| US Dollar/ Euro                           | 11,898                                   | US Dollar | 58,580                         |         |        | 58,580  |
| Kuwait Dinar / Euro                       | 4192                                     | Dinar     | 11,595                         |         | 11,920 | 23,515  |
| Polish Zloti / Euro                       | 104                                      | Zloti     | 20,415                         |         |        | 20,415  |
| US Dollar / Dinar Kuwait                  | 481                                      | US Dollar | 23,339                         | 139,869 |        | 163,208 |
| US Dollar/ Mexican Pesos                  | 115                                      | US Dollar | 2,055                          |         |        | 2,055   |
| US Dollar/ Yen JPY                        | 303                                      | US Dollar | 4,024                          |         |        | 4,024   |
| Pound GBP / Euro                          | 1  | Pound     | 500                            |         |        | 500     |
| Raw Material                              | 36                                       | USD/LB    | 115,029 TN                     |         |        |         |
| <b>Assets</b>                             | <b>17,535</b>                            |           |                                |         |        |         |

| Foreign currency forward contracts        | Fair value<br>(Euro<br>Thousand)<br>2016 | Currency        | Maturities notional (Thousand) |         |             |                  |
|---|--|-----------------|--------------------------------|---------|-------------|------------------|
|   |  |                 | 2017                           | 2018    | 2019        | Total Nacionales |
| <b>Foreign currency forward contracts</b> |  |                 |                                |         |             |                  |
| US Dollar/Mexican Pesos                   | 1,679                                    | US Dollar       | 16,528                         |         |             | 16,528           |
| US Dollar/Kuwait Dinar                    | 213                                      | US Dollar       | 83,887                         | 7,060   |             | 90,947           |
| US Dollar/NOK (Norway)                    | 663                                      | US Dollar       | 12,541                         |         |             | 12,541           |
| Yen JPY/EUR                               | 1,196                                    | Yen             | 1,720,412                      |         |             | 1,720,412        |
| Kuwait Dinar/EUR                          | 259                                      | Kuwait Dinar    | 11,580                         |         | 340         | 11,920           |
| Canadian Dollar/ Euro                     | 1,364                                    | Canadian Dollar | 23,811                         |         |             | 23,811           |
| Pound GBP/Euro                            | 10                                       | Pound           | 748                            |         |             | 748              |
| US Dollar/Malaysian Ringgit MYR           | 25,137                                   | US Dollar       | 103,400                        |         |             | 103,400          |
| US Dollar/ Sol PEN                        | 2,466                                    | US Dollar       | 25,000                         |         |             | 25,000           |
| US Dollar/Canada Dolar                    | 2,215                                    | US Dollar       | 3,500                          |         |             | 3,500            |
| US Dollar/Euro                            | 109,340                                  | US Dollar       | 1,565,447                      | 105,000 |             | 1,670,447        |
| US Dollar/Yen JPY                         | 4,293                                    | US Dollar       | 36,499                         |         |             | 36,499           |
| Polish Zloti/Euro                         | 43                                       | Polish Zloti    | 29,239                         |         |             | 29,239           |
| US Dollar/Pound GBP                       | 1,293                                    | US Dollar       | 1,269                          |         |             | 1,269            |
| Raw Material                              | 1,304                                    | USD/oz tr       |                                |         | 35,816,9 TN |                  |
| <b>Liabilities</b>                        | <b>151,475</b>                           |                 |                                |         |             |                  |
| <b>Balance</b>                            | <b>(133,940)</b>                         |                 |                                |         |             |                  |

Due dates per year of the fair values of the derivatives at December 31, 2017 and 2016 are as follows:

|                               | 2017 | 2018   | 2019  | 2020 | Total Fair Value |
|-------------------------------|------|--------|-------|------|------------------|
| <b>Total Asset 2017</b>       | –    | 37,787 | 361   | –    | <b>38,148</b>    |
| <b>Total Liabilities 2017</b> | –    | 28,423 | 2,489 | –    | <b>30,912</b>    |

|                               |         |       |       |   |                |
|-------------------------------|---------|-------|-------|---|----------------|
| <b>Total Asset 2016</b>       | 14,755  | 465   | 2,315 | – | <b>17,535</b>  |
| <b>Total Liabilities 2016</b> | 147,091 | 3,029 | 1,355 | – | <b>151,475</b> |

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

The Group's maximum exposure to credit risk at the balance sheet date is the fair value of balance-sheet derivative assets.

The after-tax gains/losses accumulated in equity in connection with foreign currency forward contracts at 31 December 2017 amounted to gain of € 15,836 k (2016: loss of € 73,427 k). These gains and losses are recognised in the income statement in the year or years in which the hedged transactions affect profit or loss. The impact on the income statement recorded as part of the results of the operating profit in the year 2017 has been a benefit of 39,376 thousand euros (85,755 thousand euros in 2016).

The variance of the hedging derivatives and hedging reserve, and their impacts on equity and income statement during the year is as follows:

|  | 31.12.2016 | Income restated to equity * | Liquidations of the year *** | 31.12.2017 |
|--|------------|-----------------------------|------------------------------|------------|
| <b>Hedging derivatives ( net liability position)</b> | 133,940    | (150,913)                   | 9,737                        | (7,236)    |

|  | 31.12.2016 | Income restated to equity * | Transfer to profit and loss account ** | 31.12.2017 |
|--|------------|-----------------------------|--|------------|
| <b>Hedging reserve (gross of tax effect)</b> | (92,556)   | 150,913                     | (39,376)                               | 18,971     |

\* Refers to the part of the profit or loss on the hedged instrument that has been determined to be an effective hedge.

\*\* Amount carried to the income statement for the year, to the extent that the hedged operation impacts results.

\*\*\* Value of the hedging derivatives liquidated by the Group during the year.

|  | 31.12.2015 | Income restated to equity * | Liquidations of the year *** | 31.12.2016 |
|--|------------|-----------------------------|------------------------------|------------|
| <b>Hedging derivatives ( net liability position)</b> | 148,862    | 58,032                      | (72,954)                     | 133,940    |

|  | 31.12.2015 | Income restated to equity * | Transfer to profit and loss account ** | 31.12.2016 |
|--|------------|-----------------------------|--|------------|
| <b>Hedging reserve (gross of tax effect)</b> | (120,279)  | (58,032)                    | 85,755                                 | (92,556)   |

\* Refers to the part of the profit or loss on the hedged instrument that has been determined to be an effective hedge.

\*\* Amount carried to the income statement for the year, to the extent that the hedged operation impacts results.

\*\*\* Value of the hedging derivatives liquidated by the Company during the year.



During fiscal year 2017, there were no ineffectiveness that could be described as foreign currency hedges, which are recognized, when they occur, in the income statement as financial results (2016: there were no ineffectiveness).

## 11. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

The assets and liabilities corresponding to the Concessions of Complejo Deportivo Alcobendas and Complejo Deportivo, parking and public spaces in San Sebastian de los Reyes / Centro Comercial La Viña, are being presented as held for sale, in accordance with the Decision-making by the Management of the company to sell these assets.

The detail of the asset classified as held for sale is as follows:

|  | 2017          | 2016          |
|--|---------------|---------------|
| Intangible assets                                | 67,060        | 67,060        |
| Property, plant and equipment                    | 672           | 672           |
| Financial asset                                  | 194           | 221           |
|  | <b>67,926</b> | <b>67,953</b> |
| Impairment of assest classified as held for sale | (15,584)      | (8,914)       |
| <b>Total</b>                                     | <b>52,342</b> | <b>59,039</b> |

The liabilities related with the assests classified as held for sale amounted to € 21,546 k, which fully correspond to the borrowings (2016: € 24,474 k).

The Group has completed an analysis of profitability of the assets classified as held for sale, with the purpose to evaluate and identify whether an imparitment indicator exists, a lost of value or a recovery of assets. In this sense, it has been evaluated the different external/internal circumstances which could cause a sign of impairment, such as the market value of the asset, evolution of the business plan, management changes or changes in the environment (legal, tax, economic), evolution of the interest rates, and obsolescence or impairment.

The review of the evolution of the business plans of the aforementioned assets has shown an impairment of value, reason why the Management has decided to provide a provision amounting to € 6,670 k (2016: € 8,914 k).

### a) Analysis of discontinued operations

|  | Euro Thousand  |                 |
|--|----------------|-----------------|
|  | 2017           | 2016            |
| Income                                     | 6,300          | 5,720           |
| Expenses and Impairment of assets          | (13,032)       | (20,405)        |
| <b>Losses before taxes</b>                 | <b>(6,731)</b> | <b>(14,685)</b> |
| Income tax                                 | 1,683          | 3,671           |
| <b>Losses from discontinued operations</b> | <b>(5,049)</b> | <b>(11,014)</b> |

The operations related to the disposal of these assets have been postpone to 2018 in the agreement reached with the buyers.

## 12. TRADE AND OTHER RECEIVABLES

Set out below is an analysis of this balance sheet heading at year-end 2017 and 2016:

|   | 2017             | 2016             |
|---|------------------|------------------|
| Trade receivables                             | 2,608,813        | 2,045,204        |
| Less: provision for impairment of receivables | (14,331)         | (13,983)         |
| <b>Trade receivables-net</b>                  | <b>2,594,482</b> | <b>2,031,221</b> |
| Other accounts receivable                     | 5,422            | 7,580            |
| Prepayments                                   | 54,510           | 234,238          |
| Public Authorities                            | 125,256          | 121,680          |
| Other items                                   | 6,453            | 11,588           |
| <b>Total</b>                                  | <b>2,786,123</b> | <b>2,406,307</b> |

Prepayments refer to the payments made on account for supplies to be used in the Group's projects. The amounts under this heading increase and decrease cyclically, depending on the stage of each one of the projects on the closing date.

Trade receivables includes € 1,922,166 k (2016: € 1,570,054 k) relating to completed work pending to be billed, measured on the basis of the accounting criteria set forth in Note 2.21.

The claims that the Group expects to collect from the client, or from a third party, as reimbursement of costs not included in the contract price, included in the Trade Receivables amount to 244 million euro at 31 December 2017 (169 million euro at 31 December 2016). This amount includes 92 million euros, which are already agreed with clients pending on the final formalization. The total amount under the concept of claim accounts to 581 million euros in 2017 and 635 million euros in 2016. Due to the sort of projects in backlog, the negotiations with clients regarding claims may extend during the life of the projects, normally concluding once the final phase of the project comes.

The composition of the booked amount is as follows:

- America: 43%.
- Mediterranean area: 40%.
- Middle East, Asia and Europe; 17%.

Additionally, ongoing change orders regarding changes in scope or modifications to the main contract are booked. The amounts booked at year-end amounts to 47 and 189 million euros in 2017 and 2016 respectively. The total amount requested at year-end amounted to 376 and 459 million euro in 2017 and 2016. During the first two months of 2018; favorable agreements have been closed with clients, which include 16 million euro already recorded in 2017.

With regard to the 358 million euro recognized as income on account for claims and change orders at the closing of 2016, at the date of issuance of these consolidated annual accounts, an amount of 57 million euro remains in negotiation. The remaining amount, € 301 million, was fully agreed with clients. The historical net rate of realization for the amounts recorded as claims and change orders for the last three years (2014-2016) has been established in 98%-116%.

Discounting has no significant effect on the fair values of trade and other receivables. Nominal values are considered to approximate fair values and the effect of discounting them is not significant.

The Group's maximum exposure to credit risk at the balance sheet date is the carrying amount of trade and other accounts receivable.

At 31 December 2017, trade receivables of € 286,842 k (2016: € 308,160 k) were fully performing.

At 31 December 2017, trade receivables of € 233,688 k (2016: € 153,007 k) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of these trade receivables is as follows:

|                | 2017           | 2016           |
|----------------|----------------|----------------|
| Up to 3 months | 58,187         | 99,697         |
| 3 to 6 months  | 42,584         | –              |
| Over 6 months  | 132,917        | 53,310         |
|                | <b>233,688</b> | <b>153,007</b> |

The Group recognized a loss of EUR 497 k on the impairment loss on its trade accounts receivable during the year ended 31 December 2017 (2016: € 638 k). Movements on the provision for impairment of trade receivables are as follows:

|                        | 2017          | 2016          |
|------------------------|---------------|---------------|
| <b>Opening balance</b> | <b>13,983</b> | <b>13,504</b> |
| Amounts impaired       | 497           | 638           |
| Amounts used           | (149)         | (159)         |
| Transfers              | –             | –             |
| <b>Closing balance</b> | <b>14,331</b> | <b>13,983</b> |

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

|                                     | 2017             | 2016             |
|-------------------------------------|------------------|------------------|
| Euro                                | 107,347          | 136,007          |
| US dollars                          | 240,293          | 254,845          |
| Other currencies                    | 339,007          | 84,298           |
| Subtotal                            | 686,647          | 475,150          |
| Completed work pending to be billed | 1,922,166        | 1,570,054        |
| <b>Total</b>                        | <b>2,608,813</b> | <b>2,045,204</b> |

The total amount of costs incurred and recognized benefits accrued at source for all contracts in progress at the balance sheet date amounted to € 13,332,463 thousand (2016: € 10,538,140 thousand) and € 807,735 thousand (2016: € 858,135 thousand), respectively.

The amount of the advances received on projects in progress is disclosed in Note 21. As with advances to suppliers, the amounts under this heading increase and decrease cyclically, depending on the stage of each one of the projects on the closing date. The amount withheld by customers totalled € 251,415 k (2016: € 204,679 k). The with holdings are refunded at the end of the project.

## 13. INVENTORIES

The breakdown of inventory balances is as follows:

|   | 2017          | 2016          |
|---|---------------|---------------|
| Construction projects in progress (Raw Materials) | 304           | 37            |
| Bid presentation costs                            | 13,656        | 12,943        |
| Finished product                                  | 3,964         | 4,012         |
|   | <b>17,923</b> | <b>16,992</b> |

The caption "product in progress" includes the amount of the costs of submitting bids for those contracts obtained or whose obtaining is probable.

Construction projects in progress capitalise the cost of building a number of assets (mainly car parks), as described in Note 7, in respect of the portions held for sale.

## 14. RECEIVABLES AND OTHER ASSETS

|   | 2017          | 2016          |
|---|---------------|---------------|
| <b>Receivables and other assets (non-current)</b> |               |               |
| Loans to employees                                | 1,314         | 1,482         |
| Investments held until due date                   | 5,232         | 5,633         |
| Public Authorities                                | 8,836         | 8,836         |
| Other assest non/current                          | 3,040         | 4,838         |
|   | <b>18,422</b> | <b>20,789</b> |
| <b>Receivables and other assets (current)</b>     |               |               |
| Loans to venturers in UTEs and joint ventures     | 13,820        | 14,626        |
| Interest  | 1,579         | 1,560         |
| Investment held to maturity                       | 1,085         | 491           |
|   | <b>16,484</b> | <b>16,677</b> |

The carrying amount of accounts receivable and other assets is considered to be close to the fair value. The maximum exposure to credit risk as of the reporting date is the carrying amount of the accounts receivable and other assets.

The average interest rate on loans to joint venture partners is the market rate of Euribor + 1% (2016: Euribor + 1%).

The balance under the heading of investments held to maturity refers mainly to deposits and bonds.

The heading titled "Public Authorities" includes the receivable balances for different concessions.

In 2014, the Group decided to withdraw from the operating concessions due to the fact that after the contracts were awarded to Técnicas Reunidas, there were circumstances that significantly affected and altered the agreed legal relationships and ownership arrangements with the respective local authorities.

The Group informed the local governments of its decision to withdraw from the concessions. As of today's date the matter has not been definitively resolved and the concessions are not operational at this time.

The termination of the concession agreement should result in a refund of the amounts invested by Técnicas Reunidas.

## 15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

|   | 2017          | 2016          |
|---|---------------|---------------|
| <b>Opening balance</b>                              | <b>64,169</b> | <b>63,198</b> |
| Net additions (disposals) (fair value)              | 3,193         | 971           |
| <b>Closing balance</b>                              | <b>67,362</b> | <b>64,169</b> |
| Listed securities:                                  |               |               |
| – Investments in short-term fixed income securities | 47,948        | 54,965        |
| – Investments in listed equity securities           | 19,414        | 9,204         |
|   | <b>67,362</b> | <b>64,169</b> |

All these financial assets are designated as held for trading.

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

During the year 2017, the Group does not invest in funds and there were not disposals. The amount of the disposals raised € 105 k in 2016.

Financial assets at fair value through profit or loss include investments in listed equities and short term fixed income funds and their fair value at 31 December 2017 and 2016 has been determined by reference year-end market prices. Returns on fixed-income securities are tied to trends in eurozone interest rates.

## 16. CASH AND CASH EQUIVALENTS

|   | 2017           | 2016           |
|---|----------------|----------------|
| Cash at bank and on hand                            | 314,074        | 348,806        |
| Short-term bank deposits and other cash equivalents | 255,864        | 339,463        |
|   | <b>569,939</b> | <b>688,269</b> |

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). The short-term bank deposits earn interest at market rates. The average yields on deposits were: 0 % Eur and 0.9 % USD in 2017, and 0.2% Eur and 0.8% USD in 2016, and for average term of 14 and 15 days in respectively.

Of the total balance of cash and cash equivalents at 31 December 2017, € 109,803 k (€ 173,218 k in 2016) came from the integration of the joint arrangements and joint ventures included in the scope of consolidation, as detailed in Exhibits III and IV, respectively.

There were no cash or cash equivalents with restricted availability at 2017 and 2016 year-end, however the cash proceeding from the joint ventures and with other partners, are fully destined to the project subject to such joint venture or UTE. For the purposes of the consolidated statement of cash flows, the cash balance includes cash and cash equivalents.

## 17. CAPITAL

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

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

The movement in treasury shares in 2017 and 2016 is set forth below:

|                        | 2017                      |               | 2016                      |               |
|------------------------|---------------------------|---------------|---------------------------|---------------|
|                        | Number of treasury shares | Amount        | Number of treasury shares | Amount        |
| Opening balance        | 2,140,093                 | 72,623        | 2,178,374                 | 74,150        |
| Additions / purchases  | 6,983,681                 | 222,283       | 6,915,202                 | 206,910       |
| Decreases / sales      | (6,956,500)               | (221,865)     | (6,953,483)               | (208,437)     |
| <b>Closing balance</b> | <b>2,167,274</b>          | <b>73,041</b> | <b>2,140,093</b>          | <b>72,623</b> |

At 31 December 2017 treasury shares represented 3.88% of the parent company's share capital (2016: 3.83 %), Treasury shares totalled 2,167,274 (2016: 2,140,093 shares), acquired at an average price of € 33.7 per share (€ 33.88 per share in 2016).

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

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

| Shareholder  | 2017                  | 2016                  |
|--|-----------------------|-----------------------|
|  | Ownership interest, % | Ownership interest, % |
| Aragonesas Promoción de Obras y Construcciones, S.L. | 5.10%                 | 5.10%                 |
| Araltec Corporación, 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%                 |
| Ariel Investments, L.L.C.                            | 3.02%                 | -                     |
| Citadel Multi-strategy Equities Master Fund. Ltd.    | 3.01%                 | -                     |
| Norges Bank  | 1.26%                 | -                     |
| Rest of shareholders (including free float)          | 48.74%                | 53.02%                |
| Treasury shares                                      | 3.88%                 | 3.83%                 |
| <b>Total</b>   | <b>100.00%</b>        | <b>100.00%</b>        |

According to a notice filed with the Spanish securities market regulator in December 12, 2017, Mr. José Lladó Fernández-Urrutia holds a direct and indirect shareholding, through Araltec S.L.U. and Aragonesas Promoción de Obras y Construcciones S.L.U., in Técnicas Reunidas, S.A. of 37.20%.

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

The parent company has signed a liquidity agreement with Santander Investment Bolsa, Sociedad de Valores, and S.A.U. for the Spanish stock market, the purpose of which is to favour transaction liquidity. The contract was signed for a term of one year renewed in July 10, 2017 in accordance with the communication 1/2017 of CNMV of April 16th. The number of shares in the account associated with the contract is 74,500 and a total of € 2,574 k was deposited in the cash account associated with the contract.

## 18. OTHER RESERVES

|                        | Euro Thousand |              |
|------------------------|---------------|--------------|
|                        | 2017          | 2016         |
| Legal Reserve          | 1,137         | 1,137        |
| Capitalization Reserve | 3,056         | 3,056        |
|                        | <b>4,193</b>  | <b>4,193</b> |

### Legal Reserve

The Legal Reserve is fully endowed, it is not distributable to shareholders and can only be used to cover, in case of not having other available reserves, the debit balance of the income statement. Under certain conditions, it may also be used to increase share capital.

## Capitalization reserve

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

## 19. CUMULATIVE TRANSLATION DIFFERENCES

|                                  | Euro Thousand   |
|----------------------------------|-----------------|
| <b>1 January 2016</b>            | <b>(4,165)</b>  |
| Translation differences:         |                 |
| – Transfers                      | 9,324           |
| – Group companies and associates | (22,789)        |
| <b>31 December 2016</b>          | <b>(17,630)</b> |
| Translation differences:         |                 |
| – Transfers                      | 27,138          |
| – Group companies and associates | (41,348)        |
| <b>31 December 2017</b>          | <b>(31,840)</b> |

The transfer booked in 2017 is related to the received dividends by the parent company from one of its subsidiaries and correspond to the historical exchange rate generating those reserves and the exchange rate applicable to the moment of approval of such dividend.



A breakdown of cumulative translation differences by company / subgroup at year-end 2017 and 2016 is as follows:

|   | 2017            | 2016            |
|---|-----------------|-----------------|
| <b>Company or subgroup</b>                      |                 |                 |
| Técnicas Reunidas (UTE and foreign consortiums) | (3,634)         | 1,933           |
| – Abu Dabhi Branch                              | 7,583           | 1,801           |
| – Australia Branch                              | (5,259)         | (707)           |
| – Ankara Branch                                 | 2,088           | 1,455           |
| – Moscu Branch                                  | (2,199)         | (1,740)         |
| – Kuwait Branch                                 | (3,451)         | 699             |
| – Other   | (2,396)         | 425             |
| Técnicas Reunidas RUP Insaat (Turkey)           | (1,144)         | (26,014)        |
| Técnicas Reunidas TEC (Bolivia)                 | (4,706)         | (3,793)         |
| Técnicas Reunidas Canada (Canada)               | (2,970)         | (3,397)         |
| TSGI Mühendislik İnşaat Limited Şirketi         | (7,697)         | (2,544)         |
| Técnicas Reunidas Australia Pty Ltd (Australia) | (224)           | (68)            |
| Técnicas Reunidas Saudia (Saudi Arabia)         | (10,717)        | 5,653           |
| Técnicas Reunidas Gulf Ltd, (Saudi Arabia)      | 524             | 6,594           |
| Técnicas Reunidas Chile Limitada (Chile)        | 1,299           | 1,345           |
| Técnicas Reunidas Peru de Talara                | (2,851)         | 1,696           |
| Técnicas Reunidas Omán L.L.C. (Oman)            | (333)           | (234)           |
| Treunidas Mühendislik ve İnşaat A.S.            | (360)           | (360)           |
| Técnicas Reunidas Mexico                        | 933             | 408             |
| Técnicas Reunidas PIC (Peru)                    | 39              | 319             |
| Other   | –               | 833             |
| <b>Total</b>                                    | <b>(31,840)</b> | <b>(17,630)</b> |

## 20. DIVIDEND DISTRIBUTION AND NON-CONTROLLING INTERESTS

The proposed distribution of 2017 profit to be share with the parent company's shareholders in general meeting and the ratified distribution of 2016 profit is set forth below:

|                               | 2017           | 2016           |
|-------------------------------|----------------|----------------|
| <b>Basis of appropriation</b> |                |                |
| Profit (loss) for the year    | 187,333        | 158,741        |
|                               | <b>187,333</b> | <b>158,741</b> |
| <b>Distribution</b>           |                |                |
| Other reserves                | 151,481        | 83,741         |
| Dividends                     | 35,852         | 75,000         |
|                               | <b>187,333</b> | <b>158,741</b> |

The breakdown of dividends is as follows:

- 2017: A € 35,852 k interim dividend approved by the Board of Directors on 21 December 2017 and paid on 18 January 2018.
- 2016: The € 75,000 k dividend breaks down as follows:
  - A € 35,852 k interim dividend approved by the Board of Directors on 28 December 2016 and paid on 19 January 2017.
  - A dividend of € 39,148 k pending to be approved at the Annual General Meeting (AGM) that will ratify the 2016 annual accounts.

The following are the provisional accounting and cash statements as of the date of payment of the interim dividends for 2017 and 2016 profits, as detailed above:

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

### Accumulated Earnings

These are unrestricted voluntary reserves, at 31 December 2017, amounted to € 551,494 k (€ 618,782 k in 2016).

## Non-controlling interests

Movements in non-controlling interests in 2017 and 2016 are broken down below:

|  |               |
|--|---------------|
| <b>Balance at 01/01/2016:</b>                    | <b>3,737</b>  |
| Profit for the year                              | 334           |
| Translation differences                          | 31            |
| <b>Balance at 31/12/2016:</b>                    | <b>4,102</b>  |
| Profit for the year                              | 19,439        |
| Translation differences                          | (169)         |
| Dividens paid to non-controlling interest shares | (5,139)       |
| <b>Balance at 31/12/2017:</b>                    | <b>18,233</b> |

## 21. TRADE AND OTHER PAYABLES

a) Trade payables are analysed below:

| Commercial creditors                   | 2017             | 2016             |
|--|------------------|------------------|
| Payable to suppliers                   | 2,476,081        | 2,125,951        |
| Suppliers Retainings                   | 160,116          | 134,270          |
| Prepayments received for contract work | 138,276          | 266,683          |
| Other items                            | 21,540           | 43,640           |
|  | <b>2,796,013</b> | <b>2,570,543</b> |

b) Other payables are set out below:

| Other accounts payable      | 2017          | 2016          |
|-----------------------------|---------------|---------------|
| <b>Non-current</b>          |               |               |
| Financial Leases            | 288           | 409           |
|                             | <b>288</b>    | <b>409</b>    |
| <b>Current</b>              |               |               |
| Dividend pending to be paid | 35,819        | 35,939        |
| Other                       | 510           | 794           |
|                             | <b>36,329</b> | <b>36,733</b> |

The carrying amount of trade payables and other payables approximates their fair value.

## 22. BORROWINGS

|                         | 2017           | 2016           |
|-------------------------|----------------|----------------|
| <b>Non-current</b>      |                |                |
| Borrowings              | 92,215         | 155,212        |
|                         | <b>92,215</b>  | <b>155,212</b> |
| <b>Current</b>          |                |                |
| Borrowings              | 292,219        | 84,923         |
|                         | <b>292,219</b> | <b>84,923</b>  |
| <b>Total Borrowings</b> | <b>384,434</b> | <b>240,135</b> |

The average effective interest rates (all of which are floating, except for the debt in the amount of EUR 150,000 thousand, which is fixed at 0.51%) at the balance sheet dates are as follows:

|            | 2017  |       | 2016  |           |
|------------|-------|-------|-------|-----------|
|            | Euro  | PLN   | Euro  | US Dollar |
| Borrowings | 0.65% | 1.35% | 0.80% | 0.80%     |

The carrying amount of borrowings (both current and non-current) approximates their fair value discount is not significant. The borrowings are referenced mainly to floating interest rates, principally Euribor and Libor, with monthly reset clauses.

The maturity of borrowings is broken down in Note 3 – liquidity risk. The carrying amount of the Group's borrowings is denominated in the following currencies:

|            | 2017           | 2016           |
|------------|----------------|----------------|
| Euro       | 376,299        | 224,766        |
| US dollars | –              | 15,369         |
| Zloty      | 8,135          | –              |
|            | <b>384,434</b> | <b>240,135</b> |

The Group has the following undrawn credit lines:

| Tipo variable                    | 2017           | 2016           |
|----------------------------------|----------------|----------------|
| – Maturing in less than one year | 374,671        | 275,703        |
| – Maturing in more than one year | 513,329        | 344,295        |
|                                  | <b>888,000</b> | <b>619,998</b> |

The syndicated line requires that the consolidated ratio net debt/EBITDA is below or equal to 3. This requirements are complied at the date of this annual accounts.

## 23. PROVISIONS FOR LIABILITIES AND CHARGES

### a) Provisions for liabilities and charges – non current

| Item                         | Provision for estimated project losses | Provision for project completion | Other provisions | Total provisions for liabilities and charges |
|------------------------------|--|----------------------------------|------------------|--|
| <b>Balance at 01/01/2016</b> | <b>2,185</b>                           | <b>18,032</b>                    | <b>11,000</b>    | <b>31,217</b>                                |
| Reversals / Amounts used     | (1,207)                                | (1,390)                          | (237)            | (2,834)                                      |
| Additions                    | 1,506                                  | –                                | 5,087            | 6,593  |
| <b>Balance at 31/12/2016</b> | <b>2,484</b>                           | <b>16,642</b>                    | <b>15,850</b>    | <b>34,976</b>                                |
| Reversals / Amounts used     | (1,174)                                | (14,642)                         | –                | (15,816)                                     |
| Additions                    | –                                      | –                                | 24,042           | 24,042                                       |
| <b>Balance at 31/12/2017</b> | <b>1,310</b>                           | <b>2,000</b>                     | <b>35,892</b>    | <b>43,202</b>                                |

#### Provision for estimated project losses:

In compliance with IAS 11, the Group recognises provisions for estimated future losses on projects currently in progress..

#### Provision for infrastructures:

For projects that are completed the Group estimates probable costs that will be incurred.

#### Other provisions:

This item relates to provisions for other liabilities and charges, including commitments to pay project partners, provisions for probable risks and provisions for other non-current payments.

As far as non-current provisions are concerned, due to the characteristics of the risks involved it is not possible to determine a reasonable payment timeline.

### b) Provisions for liabilities and charges – current

|                                    | Euro Thousand |
|------------------------------------|---------------|
| <b>Balance at 1 January 2016</b>   | <b>4,012</b>  |
| Reversals / Amounts used           | (450)         |
| Additions                          | 3,687         |
| <b>Balance at 31 December 2016</b> | <b>7,249</b>  |
| Reversals / Amounts used           | (3,611)       |
| Additions                          | –             |
| <b>Balance at 31 December 2017</b> | <b>3,638</b>  |

## 24. REVENUE

|   | 2017             | 2016             |
|---|------------------|------------------|
| Construction and engineering contract revenue | 5,067,926        | 4,792,592        |
| Services rendered                             | 18               | 18               |
| <b>Total revenue</b>                          | <b>5,067,944</b> | <b>4,792,610</b> |

Note 5 presents the Group's main business and geographic operating segments.

## 25. OTHER EXPENSES AND INCOME

### a) Raw materials and consumables

Raw materials and consumables includes, mainly, the amount of materials and cost of subcontractors.

### b) Other operating expenses and other income

|                                   | 2017           | 2016           |
|-----------------------------------|----------------|----------------|
| <b>Other operating expenses</b>   |                |                |
| Services                          | 67,188         | 393,397        |
| Independent professional services | 49,890         | 37,345         |
| Repairs and maintenance           | 8,098          | 8,662          |
| Banking and similar services      | 33,975         | 34,538         |
| Transport expenses                | 26,306         | 27,927         |
| Insurance premiums                | 11,134         | 14,690         |
| Utilities                         | 16,247         | 12,741         |
| Other                             | 28,542         | 12,573         |
|                                   | <b>241,380</b> | <b>541,874</b> |
| <b>Other income</b>               |                |                |
| Grants related to income          | 821            | 1,552          |
| Other                             | 1,008          | 2,615          |
|                                   | <b>1,829</b>   | <b>4,167</b>   |

The "Other" heading in the table above breaking down other expenses relates mainly to recognitions and reversals of provisions for non-current and current liabilities and charges amounting to 4,615 k euros.

The "Services" heading in the table above breaking down expenses related primarily to works performed by the Group.

## 26. EMPLOYEE BENEFIT EXPENSES

|                                      | 2017           | 2016           |
|--------------------------------------|----------------|----------------|
| Wages and Salaries                   | 488,958        | 489,869        |
| Social security contributions        | 78,065         | 80,733         |
| Other personal costs                 | 12,560         | 7,649          |
| Non-current remuneration obligations | 1,915          | (1,940)        |
|                                      | <b>581,498</b> | <b>576,311</b> |

In the caption "Wages and salaries" is included termination payments amounting to € 6,498 k (2016: € 5,853 k).

## 27. OPERATING LEASES

The Group rents offices under irrevocable operating lease agreements. The related lease terms are between 5 and 10 years and most are renewable at the end of the lease term at market rents.

Minimum future payments on irrevocable operating leases are as follows:

|                       | 2017   | 2016   |
|-----------------------|--------|--------|
| Less than 1 year      | 19,961 | 21,081 |
| Between 1 and 5 years | 24,908 | 33,007 |
| Over 5 years          | –      | –      |

Operating lease expense recognised in the income statement amounted to € 28,240 k (2016: € 34,213 k) and corresponds in its entirety to minimum lease payments.

## 28. FINANCE INCOME AND FINANCE COST

|   | 2017            | 2016           |
|---|-----------------|----------------|
| <b>Finance income</b>   |                 |                |
| Interest on short term bank deposits and others   | 5,725           | 6,568          |
| Net gains /(losses) on the fair value of financial instruments at fair value with changes in income and others. | 3,198           | 853            |
|   | <b>8,923</b>    | <b>7,421</b>   |
| Net gains on foreign currency transactions  | –               | 2,834          |
| <b>Total finance income</b>   | <b>8,923</b>    | <b>10,255</b>  |
| <b>Finance expense</b>  |                 |                |
| Interest expense on bank loans and others   | (8,811)         | (6,264)        |
| Net translation losses  | (7,033)         | –              |
| <b>Total finance expense</b>  | <b>(15,844)</b> | <b>(6,264)</b> |
|   | <b>(6,921)</b>  | <b>3,991</b>   |

Note 10 sets forth the impact on finance income and cost of foreign currency hedges. This impact is recorded as part of the operating profit.

## 29. INCOME TAX EXPENSE

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., Eurocontrol, S.A. and ReciclAguilar, S.A. were included in 2003 and Initec Plantas Industriales, S.A. and Initec Infraestructuras, S.A. in 2005. In 2007, Layar Castilla, S.A. left the tax group and in 2015 EUROCONTROL International Services, S.L. and Euromoodly International Services, S.L. and in the year 2016 has been incorporated Heymo, S.A. and Serviheyemo, S.A. In 2017, has been incorporated to the tax group the companies Deportes Valdavia 2017, S.L., Valdavia Gym, S.L. and Valdavia Pádel, S.L.

For calculating the tax base of the tax group and the different individual companies included in the consolidation scope, the accounting result is adjusted according to the permanent and temporary differences that may exist, leading to the corresponding assets and liabilities deferred taxes. They arise because of homogenizing valuation criteria and accounting principles between individual companies and of the consolidated, which are applicable to the parent company.

Current tax liabilities reflect corporate tax, personal income tax, social security and other tax balances amounting to 35,117 Euro Thousand at 31 December 2017 (28,888 Euro Thousand at 31 December 2016).

|                            | 2017          | 2016          |
|----------------------------|---------------|---------------|
| Current tax                | 55.402        | 91.226        |
| Deferred tax               | (31.803)      | (37.306)      |
| Previous years adjustments | 3.574         | (723)         |
| <b>Total</b>               | <b>27.173</b> | <b>53.197</b> |



Income tax expense as a percentage of the Group's pre-tax profit differs from the theoretical amount that would have been obtained had the statutory tax rate applicable to the consolidated companies' profits been applied, as reconciled below:

|   | 2017          | 2016           |
|---|---------------|----------------|
| <b>Profit before taxes</b>  | <b>91,188</b> | <b>193,398</b> |
| Taxes calculated at tax rate applicable to the parent company's profits | 22,797        | 48,350         |
| Tax effects in:   |               |                |
| – Tax exempt  | (1,240)       | (7,670)        |
| – Losses incurred by permanent establishments                           | –             | 3,538          |
| – Non-deductible expenses for tax purposes                              | 4,503         | 213            |
| – Effect of different tax rates in other countries                      | (12,180)      | 4,937          |
| – Losses for which no tax credit has been recognised                    | 9,045         | 3,398          |
| – Deduction for technology transfer                                     | –             | (6,655)        |
| – Deductions applied and unrecoverable withholdings                     | (915)         | (855)          |
| – Accruals  | –             | 3,877          |
| – Previous year Income tax adjustment                                   | 3,476         | (723)          |
| – Dividend tax rate difference  | –             | 5,167          |
| – Other   | 1,687         | (379)          |
| <b>Tax expense</b>  | <b>27,173</b> | <b>53,197</b>  |

The effective tax rate has been 29.8 % (27.1% in 2016).

The deferred tax assets and liabilities is:

|   | 2017          | 2016          |
|---|---------------|---------------|
| <b>Deferred income tax assets</b>           |               |               |
| – to be recovered after more than 12 months | 251,564       | 225,753       |
| – to be recovered within 12 months          | 3,000         | –             |
|   | 254,564       | 225,753       |
| <b>Deferred income tax liabilities</b>      |               |               |
| – to be recovered after more than 12 months | 39,520        | 21,428        |
| – to be recovered within 12 months          | –             | –             |
|   | <b>39,520</b> | <b>21,428</b> |

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

|  | Assets         | Liabilities   |
|--|----------------|---------------|
| <b>At 1 January 2016</b>                     | <b>186,730</b> | <b>11,500</b> |
| Charged and credited to the income statement | 47,234         | 9,928         |
| Charged and credited to equity               | (8,211)        | –             |
| <b>At 31 December 2016</b>                   | <b>225,753</b> | <b>21,428</b> |
| Charged and credited to the income statement | 44,549         | 11,241        |
| Charged and credited to equity               | (15,738)       | 6,851         |
| <b>At 31 December 2017</b>                   | <b>254,564</b> | <b>39,520</b> |

The origin of recognised deferred tax assets and liabilities is analysed below:

| Assets   | 2017           | 2016           |
|--|----------------|----------------|
| Unused tax losses carried forward                  | 32,842         | 19,059         |
| Tax credits arising from temporary differences     |                |                |
| – Losses incurred in subsidiaries and branches     | 172,886        | 144,935        |
| – Standardisation of project assessments and other | 21,594         | 19,201         |
| – Hedging reserve                                  | 3,273          | 19,011         |
| – Other items                                      | 23,969         | 23,547         |
|  | <b>254,564</b> | <b>225,753</b> |

| Liabilities  | 2017          | 2016          |
|--|---------------|---------------|
| – Temporary differences in countries               | 26,102        | 12,396        |
| – Standardisation of project assessments and other | 6,567         | 9,032         |
| – Hedging reserve                                  | 6,851         | –             |
|  | <b>39,520</b> | <b>21,428</b> |

Deferred tax assets in respect of unused tax losses incurred in branches and subsidiaries carried forward by geography in 2017 and 2016 are as follows:

The tax credits for available tax loss carryforwards at 31 December 2017 and 2016 are shown below, broken down by geographical area:

|   | 2017           | 2016           |
|---|----------------|----------------|
| Saudi Arabia  | 23,626         | 14,535         |
| America   | 5,846          | 4,524          |
| Others  | 3,370          | –              |
| <b>Tax credits for negative tax basis</b>   | <b>32,842</b>  | <b>19,059</b>  |
| Spain   | 172,886        | 144,934        |
| <b>Total anticipated tax originated by incurred losses in subsidiaries and branches</b> | <b>172,886</b> | <b>144,934</b> |

There is no legal time limit for deducting tax loss carryforwards according to tax laws in Spain or Saudi Arabia.

These tax credits (generated by the losses of subsidiaries entities) are expected to be recovered in less than 10 years since there is a plan in place to liquidate these branch offices even sooner than that.

The details of the cumulative negative taxable bases from foreign subsidiaries for which the Group has not recognised any tax assets.

|              | 2017   |           | 2016   |           |
|--------------|--------|-----------|--------|-----------|
|              | Base   | Tax Quota | Base   | Tax Quota |
| Portugal     | 34,986 | 8,747     | 34,986 | 8,747     |
| Saudi Arabia | 35,000 | 7,000     | –      | –         |

In the process of evaluating the potential recovery, management does not consider capitalising these balances at year end since the liquidation dates of the subsidiaries cannot be reliably estimated.

In 2017 and 2016, no deferred taxes have been generated on operations charged or credited directly against equity, additionally to the cash flow hedges detailed in the Consolidated Statement of Comprehensive Income.

At 31 December 2017 and 2016, the Group has no unused deductions.

On 28 June 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 15 June 2015 the Company received a proposed tax assessment amounting to € 136.2 million plus interests, 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 study.

On 10 July 2015, the tax assessment was appealed to the tax authorities, and was the appeal. The Company then filed an appeal against the decision with the courts, to the TEAC, on 15 September 2015. This court received the tax assessment on 23 September 2016, on 7 October 2016 the company present a legal claim with the purpose to update pending information, fact that the TEAC admitted the 1 February 2017.

On 17 July 2017 the inspection arised again and 31 July 2017 the Company appealed.

It is the opinion of the Company's management and its tax advisors that it is unlikely that the tax assessment will have to be paid. Management believes that there are technical arguments to support the position of Técnicas Reunidas and that the Company's chances for success are even greater in the contentious administrative appeals process. The criterion of Técnicas Reunidas is based on the fact that the assessments signed in 2010 recognised the right to exclude the Joint Ventures in which the Técnicas Reunidas Group operates abroad and also defined the intergroup transactional model that was used by Técnicas Reunidas, with the help of its tax advisors, to develop a new transfer pricing model. In addition to the technical arguments that support this position, it is important to note that the model currently under inspection was devised on the basis of the points made by the tax authorities in the 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 Account, 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.

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

In the year 2017, the Company has received notification from the Audiencia Nacinoal rejecting our allegations about the inspection related to the taxes regarding the period 2004-2007. Although the Management of the Company has planned an allegation to the Tribunal Constitucional, it has been booked an accrual for this.

The years open for tax audit, in addition on those that are already being audited are:

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

As a result, among other things, of the different interpretations to which Spanish tax legislation lends itself, additional tax assessments may be raised in the event of a tax inspection. The Company's directors consider, however, that any additional assessments that might be made would not significantly affect these accounts.

## 30. EARNINGS PER SHARE

### a) Basic earnings per share

Basic earnings per share is calculated by dividing profit attributable to the equity holders of the parent by the weighted average number of ordinary shares in the year, excluding treasury shares acquired by the parent company.

### b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Given that, the parent does not hold any class of potentially dilutive ordinary shares, diluted earnings per share coincides with the basic earnings per share.

|   | 2017       | 2016       |
|---|------------|------------|
| Profit attributable to owners of the ordinary instruments of equity   | 44,576     | 139,867    |
| Profit attributable to owners of the parent   | 39,527     | 128,853    |
| Weighted average number of ordinary shares issued   | 53,742,316 | 53,755,907 |
| Basic earnings per share  | 0.82       | 2.60       |
| Diluted earnings per share  | 0.73       | 2.40       |
| Profit from discontinued operations attributable to the holders of ordinary instruments in equity of the entity                           | (5,049)    | (11,014)   |
| Earnings per share of the profit from discontinued operations attributable to the holders of ordinary instruments in equity of the entity | (0.09)     | (0.20)     |

## 31. DIVIDEND PER SHARE

In 2017 dividends paid against 2016 profit amounted to € 75,000 k (of which 35,852 k was declared in 2016 and paid as an interim dividend), which translates into a dividend per share of € 1.39.

In 2016 dividends paid against 2015 profits amounted to € 75,000 k (of which € 35,830 k was declared in 2015 and paid as an interim dividend), which translates into a dividend per share of € 1.39.

## 32. CONTINGENCIES AND GUARANTEES ISSUED

In relation to the tax audits referred to in note 29, 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.

In relation to the most significant dispute concerning the Sines project in Portugal, the arbitration process continued during the current period, through hearings and allegations between the parties on the cross-claims between Técnicas Reunidas and the client, mainly related to the responsibilities, on both sides in relation to several delays. Although the customer claims an amount for loss of production caused with negligence, the plant was received by customer satisfaction, fully paid, and the guarantees of good performance and guarantee were returned by the customer entirely. Therefore, management of the Group and its legal advisors consider that an outcome in which an additional significant liability for Técnicas Reunidas is generated is not probable.

The Group is a party to certain judicial and arbitration disputes, framed in the closing process of the projects, with clients and suppliers. Based on the opinion of the Group's legal advisors, and based on available information, the Company estimates that the outcome of the Group will not significantly affect the Group's equity position.

## 33. COMMITMENTS

### Fixed Assets commitments

There are not committed significant investments by purchasing assets at 31 December 2017 or 2016.

### Operating and finance lease commitments

The Group rents several premises under irrevocable operating lease agreements. These leases have variable terms, segment clauses and renewal rights. The Group is required to provide six months' termination notice on these agreements (Note 27).

### Purchase commitments (suppliers and subcontractors)

The Group 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 Group in turn invoices its customers in accordance with similar milestones to those in place with its suppliers.

**Information on weighted average days to pay suppliers, third additional provision of Law 15/2010 of 5 July: «Duty to inform» (According to the new drawing-up given by the new Regulation 13/2014 Mercantile Law).**

As stipulated in the law of reference and in the resolution of ICAC dated on 29 January 2016, the following information is provided on the weighted average days to pay suppliers:

|                                    | 2017          | 2016      |
|------------------------------------|---------------|-----------|
|                                    | Days          | Days      |
| Average period of accounts payable | 74            | 70        |
| Ratio de paid operations           | 73            | 72        |
| Ratio of operations not paid       | 75            | 61        |
|                                    | Euro Thousand |           |
| Total paid                         | 1,263,261     | 1,484,737 |
| Total unpaid                       | 268,182       | 324,721   |

The Group is complying with the legally-mandated payment terms, with minor delays on invoices that do not meet the contractual conditions, either due to lack of official approval, missing guarantees or failure on the part of the supplier to meet other obligations under the signed order service agreement. Minor payment delays can be caused by any of these issues.

The information shown on the table above was calculated as stipulated in the resolution of 29 January 2016 of the ICAC. For the purposes of this note, the concept of trade payables includes the miscellaneous suppliers and creditors for amounts owed to the supplier of goods or services including the scope of the regulation governing payment deadlines.

To calculate the information shown in this note, the Group considered the transactions with Group suppliers after eliminating the reciprocal credits and debits of subsidiaries and other Group companies as stipulated in the applicable consolidation standards.

The table above shows the information for Spanish companies included in the consolidation group only.

## 34. RELATED-PARTY TRANSACTIONS

Transactions with related parties in 2017 and 2016 arose in the ordinary course of business. The following transactions were carried out with related parties:

### 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

There were no transactions with the Company's Directors in 2017 or 2016.

Note 37 includes information related to the compensation paid to Técnicas Reunidas, S.A. board members as company directors.

### Remuneration paid to senior management

In 2017, remuneration paid to the Group's senior management in respect of fixed and variable compensation totalled € 4,899 k (2016 comparative: € 5,883 k) and loans amounting to 290 thousand euro (2017: 0 euro). No advances to senior management were paid in 2017 and 2016.

### c) Transactions with associates

Set out below is a breakdown of balances and transactions with the associates included in Exhibit II:

|                               | 2017              |                      |           |        | 2016              |                      |           |        |
|-------------------------------|-------------------|----------------------|-----------|--------|-------------------|----------------------|-----------|--------|
|                               | Trade receivables | Payable to suppliers | Purchases | Sales  | Trade receivables | Payable to suppliers | Purchases | Sales  |
| Empresarios Agrupados, A.I.E. | 738               | 680                  | 7,652     | 1,702  | 811               | 6                    | 7,793     | 2,427  |
| E.A. Internacional, S.A.      | 6,515             | 14                   | 32        | 13,546 | 2,277             | 29                   | 65        | 11,009 |
| Ibérica del Espacio, S.A.     | 1,771             | –                    | –         | 299    | 1,410             | –                    | –         | 340    |
| TSGI                          | 3,530             | –                    | –         | 3,537  | 3,034             | –                    | –         | 3,392  |

## 35. JOINT VENTURES

The Group has interests in the joint ventures listed in Exhibit III. The amounts set out below represent the Group's percentage interest in the assets, liabilities, revenues and profits of the joint ventures:

|                                  | Euro Thousand  |                |
|----------------------------------|----------------|----------------|
|                                  | 2017           | 2016           |
| <b>Assets:</b>                   |                |                |
| Non-current assets               | 1,090          | 1,132          |
| Current assets                   | 164,669        | 120,110        |
| <b>Total assets</b>              | <b>165,759</b> | <b>121,242</b> |
| <b>Liabilities:</b>              |                |                |
| Non-current liabilities          | –              | 3,060          |
| Current liabilities              | 132,422        | 101,766        |
| <b>Total liabilities</b>         | <b>132,422</b> | <b>104,826</b> |
| <b>Net assets (liabilities)</b>  | <b>33,337</b>  | <b>16,616</b>  |
| Revenue                          | 67,114         | 275,319        |
| Expenses                         | (66,385)       | (266,253)      |
| <b>Profit/(loss) after taxes</b> | <b>729</b>     | <b>9,066</b>   |

There are no contingent liabilities in relation to the Group's shareholdings in joint ventures, nor contingent liabilities in the joint ventures themselves.

## Temporary joint ventures (UTEs)

The Group has interests in the UTEs listed in Exhibit IV. The amounts set out below represent the Group's percentage interest in the assets, liabilities, revenues and profits of the UTEs:

|                                       | Euro Thousand    |                  |
|---------------------------------------|------------------|------------------|
|                                       | 2017             | 2016             |
| <b>Activos:</b>                       |                  |                  |
| Activos no corrientes                 | 7.603            | 18.371           |
| Activos corrientes                    | 1.752.009        | 1.158.263        |
| <b>Total activos</b>                  | <b>1.759.612</b> | <b>1.176.634</b> |
| <b>Pasivos:</b>                       |                  |                  |
| Pasivos no corrientes                 | 10.832           | 8.178            |
| Pasivos corrientes                    | 1.582.789        | 1.148.502        |
| <b>Total pasivo</b>                   | <b>1.593.621</b> | <b>1.156.680</b> |
| <b>Activos netos</b>                  | <b>165.991</b>   | <b>19.954</b>    |
| Ingresos                              | 2.352.337        | 2.490.407        |
| Gastos                                | (2.193.219)      | (2.438.249)      |
| <b>Beneficio después de impuestos</b> | <b>159.118</b>   | <b>52.158</b>    |

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

## 36. 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 financial statements.

## 37. OTHER INFORMATION

### a) Average Group headcount by category

Average headcount during the year at the companies accounted for using the full method of consolidation, by professional category:

|   | 2017         | 2016         |
|---|--------------|--------------|
| Directors and senior management                     | 14           | 13           |
| Graduates, diploma holders and administrative staff | 8,591        | 8,930        |
| Skilled workers                                     | 54           | 55           |
| Sales staff   | 45           | 72           |
|   | <b>8,704</b> | <b>9,070</b> |

Average headcount during the year at the companies accounted for using the equity method, by professional category:

|   | 2017       | 2016       |
|---|------------|------------|
| Graduates, diploma holders and administrative staff | 153        | 281        |
| Skilled workers                                     | 29         | –          |
| Sales staff   | 5          | –          |
|   | <b>187</b> | <b>281</b> |

The breakdown of the year-end headcount at fully consolidated Group companies by gender:

|   | 2017         |              |              | 2016         |              |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
|   | Men          | Women        | Total        | Men          | Women        | Total        |
| Directors and senior management                     | 12           | 2            | 14           | 13           | 2            | 15           |
| Graduates, diploma holders and administrative staff | 5,529        | 3,007        | 8,536        | 5,759        | 2,993        | 8,752        |
| Skilled workers                                     | 50           | 1            | 51           | 52           | 2            | 54           |
| Sales staff   | 28           | 15           | 43           | 43           | 26           | 69           |
|   | <b>5,619</b> | <b>3,025</b> | <b>8,644</b> | <b>5,867</b> | <b>3,023</b> | <b>8,890</b> |

Figures above include 497 subcontracted employees (2016: 820 employees).

The average number employees at consolidated companies that had a disability of a severity of 33% or higher in 2017 and 2016 amount to 75 and 20 employees respectively, in the category "Graduates, diploma holders and administrative staff".



## b) Audit fees

Fees accrued for audit services rendered to Group companies in 2017 with their auditors and other auditing firms, are detailed below::

|   | 2017         |            | 2016         |
|---|--------------|------------|--------------|
|   | PwC          | Deloitte   | PwC          |
| Audit services                                    |              | 325        | 830          |
| Other Works of assurance performed by the auditor |              | 42         | 359          |
| Other Works performed by the auditor              |              | 0          | 31           |
| Other PwC entities                                | 452          | 294        | 371          |
|   | <b>1,239</b> | <b>661</b> | <b>1,591</b> |

## c) Information required under article 229 of the Spanish Corporate Enterprises Act

The directors of the parent company have no disclosures to make with respect to the contents of Article 229 of the Spanish Corporate Enterprises Act, enacted by means of Legislative Royal Decree 1/2010 of 2 July 2010, except for the following:

- Mr, José Lladó Fernández-Urrutia is the Chairman of Técnicas Reunidas Internacional, S.A. and jointly director of Técnicas Reunidas Proyectos Internacionales, S.A.
- 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 Eurocontrol, S.A., as well as sole director of Técnicas Reunidas Proyectos Internacionales, S.A.

## d) Compensation paid to members of the Company's Board of Directors

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

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

In addition, the Group has paid € 135 and 110 k in 2017 and 2016 in concept of insurance of Managers and Directors.

## 38. EVENTS AFTER THE BALANCE SHEET DATE

Between 31 December 2017 and the date of authorising these consolidated annual accounts for issue, no significant events have occurred that required to be disclosure.

## 39. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

**EXHIBIT I**  
**Subsidiaries included in the scope of consolidation - 2017**

| Company name                                      | Registered business address | Ownership interest, % | Shareholding company   | Consol. method | Business                                      | Auditor       |
|---|-----------------------------|-----------------------|--|----------------|---|---------------|
| Técnicas Reunidas Internacional, S.A.             | Spain                       | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                          | Non audited   |
| Termotécnica, S.A.                                | Spain                       | 99.8%                 | Técnicas Reunidas, S.A. y Técnicas Reunidas Construcción y Montaje, S.A. | Full           | Engineering Services                          | Non audited   |
| Técnicas Reunidas Construcción y Montaje, S.A.    | Spain                       | 100%                  | Técnicas Reunidas, S.A.  | Full           | Real Estate                                   | Non audited   |
| Técnicas Reunidas Ecología, S.A.                  | Spain                       | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                          | Non audited   |
| Técnicas Reunidas Metalúrgicas, S.A.              | Spain                       | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                          | Non audited   |
| Técnicas Reunidas Trade Panamá, S.A.              | Panama                      | 100%                  | Técnicas Reunidas, S.A.  | Full           | Inactive                                      | Non audited   |
| Técnicas Siderúrgicas, S.A.                       | Spain                       | 100%                  | Técnicas Reunidas Construcción y Montaje, S.A.                           | Full           | Engineering Services                          | Non audited   |
| Técnicas Reunidas Proyectos Internacionales, S.A. | Spain                       | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                          | Non audited   |
| Española de Investigación y Desarrollo, S.A.      | Spain                       | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                          | Non audited   |
| Layar, S.A.                                       | Spain                       | 100%                  | Técnicas Reunidas, S.A.  | Full           | Real Estate                                   | Non audited   |
| Layar Real Reserva, S.A.                          | Spain                       | 100%                  | Layar, S.A.  | Full           | Real Estate                                   | Non audited   |
| Eurocontrol, S.A.                                 | Spain                       | 80%                   | Layar, S.A y Layar Real Reserva, S.A.                                    | Full           | Inspection, Quality Control, Technical Advice | Acisa         |
| Initec Plantas Industriales, S.A.                 | Spain                       | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                          | PwC/ Deloitte |
| Initec Infraestructuras, S.A.                     | Spain                       | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                          | PwC/ Deloitte |
| Técnicas Reunidas Chile Ltda.                     | Chile                       | 100%                  | Initec Plantas Industriales, S.A.  | Full           | Engineering Services                          | PwC/ Deloitte |
| ReciclAguilar, S.A.                               | Spain                       | 80%                   | Técnicas Reunidas, S.A.  | Full           | Engineering Services                          | No auditada   |
| Técnicas Reunidas Gulf Ltd. - Arabia Saudí        | Saudi Arabia                | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                          | PwC/ Deloitte |
| TR Engineering LLC - Oman                         | Oman                        | 49%                   | Initec Plantas Industriales, S.A.  | Full           | Engineering Services                          | PwC/ Deloitte |

|   |                    |      |   |      |   |                   |
|---|--------------------|------|---|------|---|-------------------|
| Técnicas Reunidas Omán LLC  | Oman               | 70%  | Initec Plantas Industriales, S.A.   | Full | Engineering Services  | PwC/<br>Deloitte  |
| Técnicas Reunidas Hellas, S.A. – Grecia                               | Greece             | 100% | Técnicas Reunidas, S.A.   | Full | Engineering Services  | Non audited       |
| Técnicas Reunidas Netherlands B.V.                                    | Holland            | 100% | Técnicas Reunidas, S.A.   | Full | Engineering Services  | Non audited       |
| Técnicas Reunidas de Construção Unip. LDA - Portugal                  | Portugal           | 100% | Técnicas Reunidas, S.A.   | Full | Engineering Services  | PwC/<br>Deloitte  |
| Técnicas Reunidas Australia Pty Ltd                                   | Australia          | 100% | Técnicas Reunidas, S.A.   | Full | Engineering Services  | Non audited       |
| Técnicas Reunidas TEC – Bolivia                                       | Bolivia            | 100% | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full | Engineering Services  | PwC/<br>Deloitte  |
| Técnicas ReunidasR RUP INSAAT TAAHHJT Limited Sirketi                 | Turkey             | 100% | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full | Engineering Services  | PwC/<br>Deloitte  |
| Técnicas Reunidas Dufi CCGT Kft                                       | Hungary            | 100% | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full | Engineering Services  | Non audited       |
| TR Canada Inc   | Canada             | 100% | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full | Engineering Services  | PwC/<br>Deloitte  |
| TR Saudi Arabia LLC   | Saudi Arabia       | 100% | Técnicas Reunidas, S.A. / Técnicas Reunidas Proyectos Internacionales, S.A. | Full | Engineering Services  | Non audited       |
| Técnicas Reunidas Saudia for Services and Contracting Company Limited | Saudi Arabia       | 100% | Técnicas Reunidas, S.A. / Técnicas Reunidas Proyectos Internacionales, S.A. | Full | Engineering Services  | PwC/<br>Deloitte  |
| Técnicas Reunidas Mühendislik ve İnsaat A.S                           | Turkey             | 100% | Técnicas Reunidas, S.A.   | Full | Engineering Services  | Non audited       |
| Técnicas Reunidas engineers India private limited (TREI)              | India              | 100% | Técnicas Reunidas, S.A.   | Full | Consulting and assistance in international engineering projects | LUTHRA-<br>LUTHRA |
| Tecreun República Dominicana, S.R.L.                                  | Dominican Republic | 100% | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full | Engineering Services  | PwC/<br>Deloitte  |
| TR Perú Ingeniería y Construcción S.A.C.                              | Peru               | 100% | Técnicas Reunidas, S.A.   | Full | Engineering Services  | Non audited       |
| TReunidas México Ingeniería y Construcción de R.L. de C.V.            | Mexico             | 100% | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full | Engineering Services  | Non audited       |
| Técnicas Reunidas de Talara, S.A.C.                                   | Peru               | 100% | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full | Engineering Services  | PwC/<br>Deloitte  |
| Técnicas Reunidas Malaysia SDN.                                       | Malaysia           | 100% | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full | Engineering Services  | PwC/<br>Deloitte  |

| Company name                             | Registered business address | Ownership interest, % | Shareholding company  | Consol. method | Business             | Auditor          |
|--|-----------------------------|-----------------------|---|----------------|----------------------|------------------|
| TR Servicios S.R.L. de C.V.              | Mexico                      | 100%                  | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A. | Full           | Engineering Services | Non audited      |
| Técnicas Reunidas USA L.L.C.             | USA                         | 100%                  | Técnicas Reunidas, S.A.                                     | Full           | Engineering Services | Non audited      |
| TR Louisiana L.L.C.                      | USA                         | 100%                  | Técnicas Reunidas USA L.L.C.                                | Full           | Engineering Services | Non audited      |
| Técnicas Reunidas Houston L.L.C.         | USA                         | 100%                  | Técnicas Reunidas USA L.L.C.                                | Full           | Engineering Services | Non audited      |
| Heymo Ingeniería, S. A.                  | Spain                       | 100%                  | Técnicas Reunidas, S. A.                                    | Full           | Engineering Services | PwC/<br>Deloitte |
| Técnicas Reunidas Ghana                  | Ghana                       | 100%                  | Técnicas Reunidas Netherlands B.V.                          | Full           | Engineering Services | Non audited      |
| Eurocontrol International Services, S.L. | Spain                       | 80%                   | Eurocontrol, S.A.   | Full           | Engineering Services | Non audited      |
| Euromoody International Services, S.L.   | Spain                       | 80%                   | Eurocontrol, S.A.   | Full           | Engineering Services | Non audited      |
| Serviheyemo                              | Spain                       | 100%                  | Heymo Ingeniería, S. A.                                     | Full           | Engineering Services | PwC/<br>Deloitte |
| Tecnicas Reunidas Canada E&C INC.        | Canada                      | 100%                  | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A. | Full           | Engineering Services | Non audited      |
| TR Sagemis                               | Italy                       | 100%                  | Técnicas Reunidas, S.A.                                     | Full           | Engineering Services | Non audited      |
| Tecnicas Reunidas UK                     | UK                          | 100%                  | Técnicas Reunidas, S.A.                                     | Full           | Engineering Services | Non audited      |
| TR Metalúrgica Chile                     | Chile                       | 100%                  | Termotécnica,S.A.   | Full           | Engineering Services | PwC/<br>Deloitte |
| Deportes Valdavia                        | Spain                       | 100%                  | Técnicas Reunidas, S.A.                                     | Full           | Engineering Services | Non audited      |
| Valdavia Padel S.L.                      | Spain                       | 100%                  | Deportes Valdavia,S.L.                                      | Full           | Engineering Services | Non audited      |
| Valdavia Gim S.L.                        | Spain                       | 100%                  | Deportes Valdavia,S.L.                                      | Full           | Engineering Services | Non audited      |

## EXHIBIT I

## Subsidiaries included in the scope of consolidation - 2016

| Company name                                      | Registered business address | Ownership interest, % | Shareholding company   | Consol. method | Business   | Auditor   |
|---|-----------------------------|-----------------------|--|----------------|--|-----------|
| Técnicas Reunidas Internacional, S.A.             | Madrid                      | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                             | Unaudited |
| Termotécnica, S.A.                                | Madrid                      | 99.98%                | Técnicas Reunidas, S.A. y Técnicas Reunidas Construcción y Montaje, S.A. | Full           | Engineering services and machinery wholesaler    | Unaudited |
| Técnicas Reunidas Construcción y Montaje, S.A.    | Madrid                      | 100%                  | Técnicas Reunidas, S.A.  | Full           | Real Estate development                          | Unaudited |
| Técnicas Reunidas Ecología, S.A.                  | Madrid                      | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                             | Unaudited |
| Técnicas Reunidas Metalúrgicas, S.A.              | Madrid                      | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                             | Unaudited |
| Técnicas Reunidas Trade Panamá, S.A.              | Panama                      | 100%                  | Técnicas Reunidas, S.A.  | Full           | Dormant  | Unaudited |
| Técnicas Siderúrgicas, S.A.                       | Madrid                      | 100%                  | Técnicas Reunidas Construcción y Montaje, S.A.                           | Full           | Engineering Services                             | Unaudited |
| Técnicas Reunidas Proyectos Internacionales, S.A. | Madrid                      | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                             | Unaudited |
| Española de Investigación y Desarrollo, S.A.      | Madrid                      | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                             | PwC       |
| Layar, S.A.                                       | Madrid                      | 100%                  | Técnicas Reunidas, S.A.  | Full           | Real Estate development                          | Unaudited |
| Layar Real Reserva, S.A.                          | Madrid                      | 100%                  | Layar, S.A.  | Full           | Real Estate development                          | Unaudited |
| Eurocontrol, S.A.                                 | Madrid                      | 80%                   | Layar, S.A y Layar Real Reserva, S.A.                                    | Full           | Inspection. Quality Control & Technical Advisory | Acisa     |
| Initec Plantas Industriales, S.A.                 | Madrid                      | 100%                  | Técnicas Reunidas, S.A.  | Full           | Advisory   | PwC       |
| Initec Infraestructuras, S.A.                     | Madrid                      | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                             | PwC       |
| Técnicas Reunidas Chile Ltda.                     | Chile                       | 100%                  | Initec Plantas Industriales, S.A.  | Full           | Engineering Services                             | PwC       |
| ReciclAguilar, S.A.                               | Madrid                      | 80%                   | Técnicas Reunidas, S.A.  | Full           | Engineering Services                             | Unaudited |
| Técnicas Reunidas Gulf Ltd. - Arabia Saudí        | Yedah                       | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                             | PwC       |
| TR Engineering LLC - Oman                         | Muscat                      | 49%                   | Initec Plantas Industriales, S.A.  | Full           | Engineering Services                             | PwC       |
| Técnicas Reunidas Omán LLC                        | Muscat                      | 70%                   | Initec Plantas Industriales, S.A.  | Full           | Engineering Services                             | PwC       |
| Técnicas Reunidas Hellas, S.A. - Grecia           | Athens                      | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                             | Unaudited |
| Técnicas Reunidas Netherlands B.V.                | Hague                       | 100%                  | Técnicas Reunidas, S.A.  | Full           | Engineering Services                             | Unaudited |

| Company name  | Registered business address | Ownership interest, % | Shareholding company  | Consol. method | Business  | Auditor       |
|---|-----------------------------|-----------------------|---|----------------|---|---------------|
| Técnicas Reunidas de Construcao Unip. LDA - Portugal                  | Lisbon                      | 100%                  | Técnicas Reunidas, S.A.   | Full           | Engineering Services                                | PwC           |
| Técnicas Reunidas Australia Pty Ltd                                   | Perth                       | 100%                  | Técnicas Reunidas, S.A.   | Full           | Engineering Services                                | Unaudited     |
| Técnicas Reunidas TEC – Bolivia                                       | Santa Cruz                  | 100%                  | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full           | Engineering Services                                | PwC           |
| Técnicas ReunidasRUP INSAAT TAAHHÜT Limited Sirketi                   | Istanbul                    | 100%                  | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full           | Engineering Services                                | PwC           |
| Técnicas Reunidas Dufi CCGT Kft                                       | Budapest                    | 100%                  | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full           | Engineering Services                                | Unaudited     |
| TR Canada Inc   | Alberta                     | 100%                  | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Ful            | Engineering Services                                | PwC           |
| TR Saudi Arabia LLC   | Yedah                       | 100%                  | Técnicas Reunidas, S.A. / Técnicas Reunidas Proyectos Internacionales, S.A. | Full           | Engineering Services                                | Unaudited     |
| Técnicas Reunidas Saudia for Services and Contracting Company Limited | Saudi Arabia                | 100%                  | Técnicas Reunidas, S.A. / Técnicas Reunidas Proyectos Internacionales, S.A. | Full           | Engineering Services                                | PwC           |
| Técnicas Reunidas Mühendislik ve Insaat A.S                           | Istanbul                    | 100%                  | Técnicas Reunidas, S.A.   | Full           | Engineering Services                                | Unaudited     |
| Técnicas Reunidas engineers India private limited (TREI)              | Nueva Delhi                 | 100%                  | Técnicas Reunidas, S.A.   | Full           | Consulting in international projects of engineering | LUTHRA-LUTHRA |
| Tecreun República Dominicana, S.R.L.                                  | Dominican Republic          | 100%                  | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full           | Engineering Services                                | PwC           |
| TR Perú Ingeniería y Construcción S.A.C.                              | Peru                        | 100%                  | Técnicas Reunidas, S.A.   | Full           | Engineering Services                                | Unaudited     |
| TReunidas México Ingeniería y Construcción de R.L. de C.V.            | Mexico                      | 100%                  | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full           | Engineering Services                                | Unaudited     |
| Técnicas Reunidas de Talara, S.A.C.                                   | Peru                        | 100%                  | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full           | Engineering Services                                | PwC           |
| Técnicas Reunidas Malaysia SDN.                                       | Malaysia                    | 100%                  | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full           | Engineering Services                                | PwC           |
| TR Servicios S.R.L. de C.V.   | Mexico                      | 100%                  | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.                 | Full           | Engineering Services                                | Unaudited     |

|  |                |      |   |       |                      |           |
|--|----------------|------|---|-------|----------------------|-----------|
| Técnicas Reunidas USA L.L.C.             | USA            | 100% | Técnicas Reunidas, S.A.                                     | Full  | Engineering Services | Unaudited |
| TR Louisiana L.L.C.                      | USA            | 100% | Técnicas Reunidas USA L.L.C.                                | Full. | Engineering Services | Unaudited |
| Técnicas Reunidas Houston L.L.C.         | USA            | 100% | Técnicas Reunidas USA L.L.C.                                | Full  | Engineering Services | Unaudited |
| Heymo Ingeniería, S. A.                  | Madrid         | 100% | Técnicas Reunidas, S. A.                                    | Full  | Engineering Services | PwC       |
| Técnicas Reunidas Ghana                  | Ghana          | 100% | Técnicas Reunidas Netherlands B.V.                          | Full  | Engineering Services | Unaudited |
| Eurocontrol International Services, S.L. | Madrid         | 80%  | Eurocontrol, S.A.   | Full  | Engineering Services | Unaudited |
| Euromody International Services, S.L.    | Madrid         | 80%  | Eurocontrol, S.A.   | Full  | Engineering Services | Unaudited |
| Serviheyemo                              | Madrid         | 100% | Heymo Ingeniería, S. A.                                     | Full  | Engineering Services | Unaudited |
| Técnicas Reunidas Canada E&C INC.        | Alberta        | 100% | Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A. | Full  | Engineering Services | Unaudited |
| TR Sagemis                               | Italy          | 100% | Técnicas Reunidas, S.A.                                     | Full  | Engineering Services | Unaudited |
| Técnicas Reunidas UK                     | United Kingdom | 100% | Técnicas Reunidas, S.A.                                     | Full  | Engineering Services | Unaudited |
| TR Metalúrgica Chile                     | Chile          | 100% | Termotécnica,S.A.   | Full  | Engineering Services | PwC       |



**EXHIBIT II**

**Associates included in the scope of consolidation - 2017**

| Company name                              | Registered business address | Ownership interest, % | Shareholding company   | Consol. method | Business             | Auditor       |
|---|-----------------------------|-----------------------|--|----------------|----------------------|---------------|
| Empresarios Agrupados, A.I.E.             | Spain                       | 43.00%                | Técnicas Reunidas, S.A. y TR Proyectos Internacionales, S.A. | P. Eq.         | Engineering Services | PwC/ Deloitte |
| Empresarios Agrupados Internacional, S.A. | Spain                       | 43.00%                | Técnicas Reunidas, S.A. y TR Proyectos Internacionales, S.A. | P. Eq.         | Engineering Services | PwC/ Deloitte |
| Ibérica del Espacio, S.A.                 | Spain                       | 49.78%                | Técnicas Reunidas, S.A. y TR Proyectos Internacionales, S.A. | P. Eq.         | Engineering Services | PwC/ Deloitte |
| Proyectos Ebramex, S. de R.L. de C.V.     | Mexico D.F                  | 33.33%                | Técnicas Reunidas, S.A.                                      | P. Eq.         | Engineering Services | Non audited   |
| Minatrico, S. de R.L. de C.V.             | Mexico D.F                  | 33.33%                | Técnicas Reunidas, S.A.                                      | P. Eq.         | Engineering Services | Non audited   |
| Máster S.A. de ingeniería y Arquitectura  | Spain                       | 40.00%                | Técnicas Reunidas, S.A.                                      | P. Eq.         | Engineering Services | Non audited   |

**EXHIBIT II**

**Associates included in the scope of consolidation - 2016**

| Company name                              | Registered business address | Ownership interest, % | Shareholding company   | Consol. method | Business             | Auditor   |
|---|-----------------------------|-----------------------|--|----------------|----------------------|-----------|
| Empresarios Agrupados, A.I.E.             | Madrid                      | 43.00%                | Técnicas Reunidas, S.A. & TR Proyectos Internacionales, S.A. | Equity method  | Engineering Services | PwC       |
| Empresarios Agrupados Internacional, S.A. | Madrid                      | 43.00%                | Técnicas Reunidas, S.A. & TR Proyectos Internacionales, S.A. | Equity method  | Engineering Services | PwC       |
| Ibérica del Espacio, S.A.                 | Madrid                      | 49.78%                | Técnicas Reunidas, S.A. & TR Proyectos Internacionales, S.A. | Equity method  | Engineering Services | PwC       |
| Proyectos Ebramex, S. de R.L. de C.V.     | Mexico D.F.                 | 33.33%                | Técnicas Reunidas, S.A.                                      | Equity method  | Engineering Services | Unaudited |
| Minatrico, S. de R.L. de C.V.             | Mexico D.F.                 | 33.33%                | Técnicas Reunidas, S.A.                                      | Equity method  | Engineering Services | Unaudited |
| Máster S.A. de Ingeniería y Arquitectura  | Barcelona                   | 40.00%                | Técnicas Reunidas, S.A.                                      | Equity method  | Engineering Services | Unaudited |

**EXHIBIT III****Joint ventures included in the scope of consolidation – 2017**

| Company name                            | Registered business address | Ownership interest, % | Venturer                      | Consol. method | Business                                   | Auditor          |
|---|-----------------------------|-----------------------|-------------------------------|----------------|--|------------------|
| Construcción e Ingeniería FIM Ltda.     | Chile                       | 33.33%                | Técnicas Reunidas Chile, S.A. | Proportionate  | Engineering services and project execution | Non audited      |
| Construcción e Ingeniería FI Ltda.      | Chile                       | 50.00%                | Técnicas Reunidas Chile, S.A. | Proportionate  | Engineering services and project execution | Non audited      |
| TSGI Mühendislik İnşaat Limited Şirketi | Turkey                      | 33.33%                | Técnicas Reunidas, S. A.      | Proportionate  | Engineering services                       | PwC/<br>Deloitte |

**EXHIBIT III****Joint ventures included in the scope of consolidation – 2016**

| Company name                            | Registered business address | Ownership interest, % | Venturer                      | Consol. method | Business                                   | Auditor   |
|---|-----------------------------|-----------------------|-------------------------------|----------------|--|-----------|
| KJT Engeharía Materials                 | Madeira                     | 33.33%                | Técnicas Reunidas, S. A.      | Proportionate  | Engineering services                       | Deloitte  |
| Damietta LNG Construction               | Damietta                    | 33.33%                | Técnicas Reunidas, S. A.      | Proportionate  | Engineering services and project execution | E&Y       |
| Construcción e Ingeniería FIM Ltda.     | Santiago                    | 33.33%                | Técnicas Reunidas Chile, S.A. | Proportionate  | Engineering services and project execution | Unaudited |
| Construcción e Ingeniería FI Ltda.      | Santiago                    | 50.00%                | Técnicas Reunidas Chile, S.A. | Proportionate  | Engineering services and project execution | Unaudited |
| TSGI Mühendislik İnşaat Limited Şirketi | Istanbul                    | 33.33%                | Técnicas Reunidas, S. A.      | Proportionate  | Engineering services                       | PwC       |

**EXHIBIT IV**  
**UTEs and consortiums in which the consolidated companies have interests – 2017**

| Corporate name           | Activity                                   | Ownership interest, % | Corporate name            | Activity                                   | Ownership interest, % |
|--------------------------|--|-----------------------|---------------------------|--|-----------------------|
| TR Abu Dhabi (BRANCH)    | Engineering services and Project execution | 100%                  | UTE Damietta LNG          | Engineering services and Project execution | 100%                  |
| TR TURQUÍA BOTAS         | Engineering services and Project execution | 100%                  | UTE RAMBLA                | Engineering services and Project execution | 80%                   |
| TR AUSTRALIA             | Engineering services and Project execution | 100%                  | UTE Villamartin           | Engineering services and Project execution | 50%                   |
| TR BRANCH VOLGGRADO      | Engineering services and Project execution | 100%                  | UTE Puerto de Barcelona   | Engineering services and Project execution | 50%                   |
| TR EP UTE OPTARA BELGIUM | Engineering services and Project execution | 100%                  | UTE Edif.Servs. Múltiples | Engineering services and Project execution | 50%                   |
| TReunidas Branch Argelia | Engineering services and Project execution | 100%                  | UTE TR/ASF. Cons.Aparc.AI | Engineering services and Project execution | 50%                   |
| TR SA ODDZIAL W POLSCE   | Engineering services and Project execution | 100%                  | UTE JV Hawiyah GPE        | Engineering services and Project execution | 100%                  |
| BX TR SPOLKA CYWILNA     | Engineering services and Project execution | 50%                   | UTE Centro de día         | Engineering services and Project execution | 50%                   |
| TR NORUEGA               | Engineering services and Project execution | 100%                  | UTE TR/INIT. P.I. Rabigh  | Engineering services and Project execution | 100%                  |
| EP BANGLADESH            | Engineering services and Project execution | 100%                  | UTE TR/TREC OPER.DESALAD  | Engineering services and Project execution | 100%                  |
| EP JORDANIA              | Engineering services and Project execution | 100%                  | UTE TR/INITEC INFRA CONST | Engineering services and Project execution | 100%                  |
| TR KUWAIT BRANCH         | Engineering services and Project execution | 100%                  | UTE INITEC/TR SAIH RAWL   | Engineering services and Project execution | 100%                  |
| JV KUWAIT CONSORCIO      | Engineering services and Project execution | 50%                   | UTE TR/Duro F. CTCC Besós | Engineering services and Project execution | 50%                   |
| TR FINLANDIA             | Engineering services and Project execution | 100%                  | UTE EVREN/INFRA.JUCAR F.1 | Engineering services and Project execution | 70%                   |
| UTE Geocart Catastro RD  | Engineering services and Project execution | 50%                   | UTE TR/GUEROLA C.TERMOSOL | Engineering services and Project execution | 50%                   |

|                           |  |      |                           |  |      |
|---------------------------|--|------|---------------------------|--|------|
| UTE Ju'aymah GPE          | Engineering services and Project execution | 100% | UTE PEIRAO XXI            | Engineering services and Project execution | 50%  |
| UTE TFT ARGELIA           | Engineering services and Project execution | 100% | UTE TR/GEA 21 COL.PLUVIA  | Engineering services and Project execution | 80%  |
| UTE INITEC/TR PISCINA HO  | Engineering services and Project execution | 100% | UTE SANHER EL CARAMBOLO   | Engineering services and Project execution | 40%  |
| UTE TR/IN CONS.COMPL.VIÑA | Engineering services and Project execution | 100% | UTE PERELLÓ               | Engineering services and Project execution | 50%  |
| UTE INITEC/SPIE MEDGAZ    | Engineering services and Project execution | 50%  | UTE ROSELL                | Engineering services and Project execution | 50%  |
| UTE TR/Initec Pl. Fenoles | Engineering services and Project execution | 100% | UTE PALMAS ALTAS SURL     | Engineering services and Project execution | 40%  |
| UTE TR/Initec Pl. Bio Bio | Engineering services and Project execution | 100% | UTE COLUMBRETES           | Engineering services and Project execution | 50%  |
| UTE TR/PI Offsites Abudh  | Engineering services and Project execution | 100% | UTE TSK TR ASHUGANJ NORTH | Engineering services and Project execution | 50%  |
| UTE INITEC P.I./TR Mejill | Engineering services and Project execution | 100% | UTE TR JJC                | Engineering services and Project execution | 51%  |
| UTE TR/PI Refi. de Sines  | Engineering services and Project execution | 100% | UTE TR/ SGS PISTA 18R     | Engineering services and Project execution | 50%  |
| UTE P.I./TRSA KHABAROVSK  | Engineering services and Project execution | 100% | UTE TR PHB JORDAN         | Engineering services and Project execution | 50%  |
| TR ELEFSINA               | Engineering services and Project execution | 100% | UTE ELORRIO-ELORRIO       | Engineering services and Project execution | 100% |
| UTE HYDROCRAKER HUNG.     | Engineering services and Project execution | 100% | SAMSUNG-TR JOINT VENTURE  | Engineering services and Project execution | 29%  |
| UTE TR/PI TR POWER        | Engineering services and Project execution | 100% | TR OMAN BRANCH            | Engineering services and Project execution | 100% |
| UTE ALQUILACION CHILE     | Engineering services and Project execution | 100% | UTE HPP Gepesa            | Engineering services and Project execution | 60%  |
| TR ABU DHABI              | Engineering services and Project execution | 100% | UTE TSGI                  | Engineering services and Project execution | 33%  |
| UTE TR JUBAIL             | Engineering services and Project execution | 100% | TR MOSCU BRANCH           | Engineering services and Project execution | 100% |

| Corporate name            | Activity                                    | Ownership interest, % | Corporate name            | Activity                                    | Ownership interest, % |
|---------------------------|---|-----------------------|---------------------------|---|-----------------------|
| UTE TR RUP                | Engineering services and Project execution  | 100%                  | UTE TRISA/AST. P. MINATR. | Engineering services and Project execution  | 33%                   |
| UTE TR YANBU REFINERY     | Engineering services and Project execution  | 100%                  | UTE IGD                   | Engineering services and Project execution  | 100%                  |
| UTE TR-IPi ABU DHABI SHAH | Engineering services and Project execution  | 100%                  | UTE TR ETO                | Engineering services and Project execution  | 100%                  |
| UTE TR-IPi TANQUE MEJILLO | Engineering services and Project execution  | 100%                  | UTE FAHDILI               | Engineering services and Project execution  | 100%                  |
| UTE TR DUFI HUNGRIA       | Engineering services and Project execution  | 100%                  | UTE HAIL                  | Engineering services and Project execution  | 100%                  |
| UTE PERLA                 | Engineering services and Project execution  | 100%                  | UTE TR NAPHTHA RT         | Engineering services and Project execution  | 100%                  |
| UTE VOLGOGRAD             | Engineering services and Project execution  | 100%                  | TECNICAS REUNIDAS FR BR.  | Engineering services and Project execution  | 100%                  |
| UTE INTEGRATED PROJECT    | Engineering services and Project execution  | 100%                  | TR KHABAROVSK BRANCH      | Engineering services and Project execution  | 100%                  |
| UTE TR JRTP JAZAN         | Engineering services and Project execution  | 100%                  | JV DARSAIT                | Engineering services and Project execution  | 50%                   |
| UTE TR TALARA             | Engineering services and Project execution  | 100%                  | CONSORCIO TR/JJC PERÚ     | Engineering services and Project execution  | 51%                   |
| UTE TR OPTARA             | Engineering services and Project execution  | 100%                  | CONSORC. MOTA ENGIL TRPIC | Engineering services and Project execution  | 50%                   |
| UTE STURGEON              | Engineering services and Project executions | 100%                  | JV SOHAR                  | Engineering services and Project executions | 50%                   |
| UTE TR INTEGRATED GAS     | Engineering services and Project execution  | 100%                  | TR QATAR                  | Engineering services and Project execution  | 100%                  |
| UTE FORT HILLS            | Engineering services and Project execution  | 100%                  | JV RAILWAY                | Engineering services and Project execution  | 34%                   |
| UTE TR MINATITLAN         | Engineering services and Project executions | 100%                  | TRSA INDIA 33059          | Engineering services and Project executions | 100%                  |
| UTE TRISA/AST. P. EBRAMEX | Engineering services and Project execution  | 33%                   | TRSA INDIA 33065          | Engineering services and Project execution  | 100%                  |

**EXHIBIT IV**  
**UTEs and consortiums in which the consolidated companies have interests – 2016**

| Corporate name           | Activity                                   | Ownership interest, % | Corporate name            | Activity                                   | Ownership interest, % |
|--------------------------|--|-----------------------|---------------------------|--|-----------------------|
| TR Abu Dhabi (BRANCH)    | Engineering services and project execution | 100%                  | UTE TRISA/AST. P. MINATR. | Engineering services and project execution | 33%                   |
| TR TURQUÍA BOTAS         | Engineering services and project execution | 100%                  | TR AKITA                  | Engineering services and project execution | 100%                  |
| TR AUSTRALIA             | Engineering services and project execution | 100%                  | UTE TR/ESPINDE. PEL SINES | Engineering services and project execution | 100%                  |
| TR BRANCH VOLGOGRADO     | Engineering services and project execution | 100%                  | UTE IGD                   | Engineering services and project execution | 100%                  |
| TR EP UTE OPTARA BELGIUM | Engineering services and project execution | 100%                  | UTE TR ETO                | Engineering services and project execution | 100%                  |
| TReunidas Branch Argelia | Engineering services and project execution | 100%                  | UTE FAHDILI               | Engineering services and project execution | 100%                  |
| UTE EP SINES             | Engineering services and project execution | 100%                  | UTE HAIL                  | Engineering services and project execution | 100%                  |
| TR SA ODDZIAL W POLSCE   | Engineering services and project execution | 100%                  | UTE TR NAPHTHA RT         | Engineering services and project execution | 100%                  |
| BX TR SPOLKA CYWILNA     | Engineering services and project execution | 50%                   | UTE Damietta LNG          | Engineering services and project execution | 100%                  |
| TR NORUEGA               | Engineering services and project execution | 100%                  | UTE RAMBLA                | Engineering services and project execution | 80%                   |
| EP BANGLADESH            | Engineering services and project execution | 100%                  | UTE Villamartin           | Engineering services and project execution | 50%                   |
| EP JORDANIA              | Engineering services and project execution | 100%                  | UTE Variante Pajar        | Engineering services and project execution | 80%                   |
| TR KUWAIT BRANCH         | Engineering services and project execution | 100%                  | UTE Puerto de Barcelona   | Engineering services and project execution | 50%                   |
| JV KUWAIT CONSORCIO      | Engineering services and project execution | 50%                   | UTE Edif.Servs. Múltiples | Engineering services and project execution | 50%                   |

| Corporate name            | Activity                                   | Ownership interest, % | Corporate name            | Activity                                   | Ownership interest, % |
|---------------------------|--|-----------------------|---------------------------|--|-----------------------|
| TR FINLANDIA              | Engineering services and project execution | 100%                  | UTE TR/ASF. Cons.Aparc.AI | Engineering services and project execution | 50%                   |
| UTE Plantas HDT y HCK     | Engineering services and project execution | 100%                  | UTE Proyecto DGC Chile    | Engineering services and project execution | 100%                  |
| UTE Geocart Catastro RD   | Engineering services and project execution | 50%                   | UTE JV Hawiyah GPE        | Engineering services and project execution | 100%                  |
| UTE Ju'aymah GPE          | Engineering services and project execution | 100%                  | UTE Centro de día         | Engineering services and project execution | 50%                   |
| UTE INITEC/TR RKF ARGELIA | Engineering services and project execution | 100%                  | UTE TR/INIT. P.I. Rabigh  | Engineering services and project execution | 100%                  |
| UTE TFT ARGELIA           | Engineering services and project execution | 100%                  | UTE TR/TREC OPER.DESALAD  | Engineering services and project execution | 100%                  |
| UTE INITEC/TR PISCINA HO  | Engineering services and project execution | 100%                  | UTE TR/INITEC INFRA CONST | Engineering services and project execution | 100%                  |
| UTE TR/IN CONS.COMPL.VIÑA | Engineering services and project execution | 100%                  | UTE INITEC/TR SAIH RAWL   | Engineering services and project execution | 100%                  |
| UTE INITEC/SPIE MEDGAZ    | Engineering services and project execution | 50%                   | UTE ENAEX                 | Engineering services and project execution | 100%                  |
| UTE TR/Initec Pl. Fenoles | Engineering services and project execution | 100%                  | UTE TR Altamarca C. Viña  | Engineering services and project execution | 100%                  |
| UTE TR/Initec Pl. Bio Bio | Engineering services and project execution | 100%                  | UTE TR/Duro F. CTCC Besós | Engineering services and project execution | 50%                   |
| UTE TR/IPI Offsites Abudh | Engineering services and project execution | 100%                  | UTE EVREN/INFRA.JUCAR F.1 | Engineering services and project execution | 70%                   |
| UTE INITEC P.I./TR Mejill | Engineering services and project execution | 100%                  | UTE TR/GUEROLA C.TERMOSOL | Engineering services and project execution | 50%                   |
| UTE TR/IPI Refi. de Sines | Engineering services and project execution | 100%                  | UTE PEIRAO XXI            | Engineering services and project execution | 50%                   |
| UTE P.I./TRSA KHABAROVSK  | Engineering services and project execution | 100%                  | UTE TR/GEA 21 COL.PLUVIA  | Engineering services and project execution | 80%                   |
| TR ELEFSINA               | Engineering services and project execution | 100%                  | UTE SANHER EL CARAMBOLO   | Engineering services and project execution | 40%                   |

|                           |  |      |                           |  |      |
|---------------------------|--|------|---------------------------|--|------|
| UTE HDT Fase II           | Engineering services and project execution | 100% | UTE PERELLÓ               | Engineering services and project execution | 50%  |
| UTE HYDROCRAKER HUNG.     | Engineering services and project execution | 100% | UTE ROSELL                | Engineering services and project execution | 50%  |
| UTE TR/IPI TR POWER       | Engineering services and project execution | 100% | UTE PALMAS ALTAS SUJRL    | Engineering services and project execution | 40%  |
| UTE ALQUILACION CHILE     | Engineering services and project execution | 100% | UTE COLUMBRETES           | Engineering services and project execution | 50%  |
| TR ABU DHABI              | Engineering services and project execution | 100% | UTE TSK TR ASHUGANJ NORTH | Engineering services and project execution | 50%  |
| UTE TR JUBAIL             | Engineering services and project execution | 100% | UTE TR JJC                | Engineering services and project execution | 51%  |
| UTE TR RUP                | Engineering services and project execution | 100% | UTE TR/ SGS PISTA 18R     | Engineering services and project execution | 50%  |
| UTE TR YANBU REFINERY     | Engineering services and project execution | 100% | UTE TR PHB JORDAN         | Engineering services and project execution | 50%  |
| UTE TR-IPI ABU DHABI SHAH | Engineering services and project execution | 100% | UTE ELORRIO-ELORRIO       | Engineering services and project execution | 100% |
| UTE TR-IPI MARGARITA      | Engineering services and project execution | 100% | SAMSUNG-TR JOINT VENTURE  | Engineering services and project execution | 29%  |
| UTE TR-IPI TANQUE MEJILLO | Engineering services and project execution | 100% | TR OMAN BRANCH            | Engineering services and project execution | 100% |
| UTE TR DUFI HUNGRIA       | Engineering services and project execution | 100% | UTE HPP Gepesa            | Engineering services and project execution | 60%  |
| UTE PERLA                 | Engineering services and project execution | 100% | UTE TSGI                  | Engineering services and project execution | 33%  |
| UTE VOLGOGRAD             | Engineering services and project execution | 100% | TR MOSCU BRANCH           | Engineering services and project execution | 100% |
| UTE INTEGRATED PROJECT    | Engineering services and project execution | 100% | TECNICAS REUNIDAS FR BR.  | Engineering services and project execution | 100% |
| UTE TR JRTP JAZAN         | Engineering services and project execution | 100% | TR KHABAROVSK BRANCH      | Engineering services and project execution | 100% |
| UTE TR TALARA             | Engineering services and project execution | 100% | JV DARSAIT                | Engineering services and project execution | 50%  |



| Corporate name            | Activity                                   | Ownership interest, % | Corporate name           | Activity                                   | Ownership interest, % |
|---------------------------|--|-----------------------|--------------------------|--|-----------------------|
| UTE TR OPTARA             | Engineering services and project execution | 100%                  | CONSORCIO TR/JJC PERÚ    | Engineering services and project execution | 51%                   |
| UTE STURGEON              | Engineering services and project execution | 100%                  | CONSORC. MOTA ENGL TRPIC | Engineering services and project execution | 50%                   |
| UTE TR INTEGRATED GAS     | Engineering services and project execution | 100%                  | JV SOHAR                 | Engineering services and project execution | 50%                   |
| UTE FORT HILLS            | Engineering services and project execution | 100%                  | UTE NT Aena              | Engineering services and project execution | 70%                   |
| UTE TR MINATITLAN         | Engineering services and project execution | 100%                  | TR QATAR                 | Engineering services and project execution | 100%                  |
| UTE TRISA/AST. P. EBRAMEX | Engineering services and project execution | 33%                   | JV RAILWAY               | Engineering services and project execution | 34%                   |

# CONSOLIDATED DIRECTORS' REPORT FOR 2017

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# 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 two large projects in Latin America with a combined value of approximately \$2 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 billion. All of this, together with the fact that the last large project in the Middle East was awarded at the end of the year, has led to no significant project in the oil and gas divisions being launched in 2017, which are key areas for the Company's business.

However, although project awards were late in coming, the volume in 2017 was one of the best years as TR Group successfully obtained tender awards valued at slightly less than €4,6 billion. 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 East (Saudi Arabia).

The large volume of contracts obtained over the past few years contributes to the growth of sales. Sales in 2017 thus grew by 6% to €5.067 billion, which is a record for the Company. The Group's operating profit amounted to €100 million, €92 million less than in 2016 due to non-recurring factors. The increase in costs due to inactivity as a result of the delay in the start of large projects, as well as cost overruns in specific projects in the final phases of their construction, delivery or launch, has led to a high degree of uncertainty regarding the capacity to recover those costs in the current crisis situation, were the factors that had a negative impact on the Company's operating performance. Net profits totalled €54 million.

At the end of 2017 the Company maintained a net cash position of €252 million. Since the start of the crisis, financial position management has gained importance in the industry. Having a healthy financial position has become one of the Group's priorities in order to comfortably take on liquidity requirements over the lifecycle of projects. The financial position maintained by Técnicas Reunidas allows it to bid on the best investments in the industry, which is one of the differentiating factors compared to the competition.

Técnicas Reunidas had 8,644 employees at 31 December 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 Company distributed a total of €75 million in dividends charged against the net profit for 2016, which is equivalent to €1.39 per share.

The evolution of each of TR's business lines was as follows:

## 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 the lowering of 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 East and Azerbaijan markets, which provides it with new customers and regions.

The revenue from this business in 2017 totalled €4,281 million, and represented 84% of total sales.

### a) Refining and Petrochemicals

- 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 billion 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, where the refinery will be the key part of its development.

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 45 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 Nm<sup>3</sup>/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).

- In December 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 Baku, 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 Azerkimya, 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 \$4.2 billion 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 consortium partners will add this contract award to their portfolios in 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.

2017 was not an intensive year of project deliveries. The Sturgeon refinery project for North West Redwater Partnership in Canada was the primary work that was completed and delivered by the Division. It was completed within the deadline and in accordance with specifications.

## b) Natural gas and Upstream

As was the case last year, 2017 did not see large opportunities in the natural gas and upstream markets. Técnicas Reunidas was still able to position itself in those regions where investments are based on local demand and regional economic growth forecasts. The Company was able to be the successful bidder for one of the main investments planned for the year thanks to one of its main customers such as Saudi Aramco, with which it has maintained a close relationship for more than 15 years. With this new project, as was the case with the Fadhili mega gas contract awarded in 2015, Técnicas Reunidas reinforced its brand's ability to manage large natural gas projects.

- In November Saudi Aramco announced the signing of eight agreements, of which three were concluded with Técnicas Reunidas, under the Gas Compression Program in the Southern Area. The project will improve and sustain gas production at the Haradh and Hawiyah fields for the coming 20 years, through the contribution of an additional 1 billion feet (scfd).

The scope of the program includes the installation of gas compression units, liquid separation and transmission lines to the Haradh and Hawiyah plants, together with the expansion of the existing pipeline network. The execution of these three contracts was awarded to Técnicas Reunidas on a turnkey basis (LSTK). The Engineering and Purchasing services will take place at the Company's offices in Madrid, Spain. El valor total del proyecto es de casi 4.500 millones de dólares, mientras que el alcance de Técnicas Reunidas será alrededor del 50% de dicha cantidad.

The total value of the project is nearly \$4.5 billion whereas Técnicas Reunidas' portion will be around 50% of that amount.

During 2017 the projects that most contributed to the Division's sales were the Fadhilli gas and Gas Integrated Combined Cycle (GICC) projects, both for Saudi Aramco in Saudi Arabia, the gas train No. 5 project (GT5) for KNPC in Kuwait and the GASCO project for the Consortium consisting of ADNOC/Total/Shell in UAE.

In 2017 the company completed the work on the Hail offshore gas field project for ADOC in the United Arab Emirates meeting its deadline and quality commitments.

## 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 number 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 were the biomass plant for MGT Teeside in England, the Kilpilahti para Neste / Veolia / Borealis electricity generation plant in Finland, the Turow coal plant for Polska Grupa Energetyczna in Poland, and the new project that has been awarded:

- In June the Blackstone Group company Fisterra Energy, 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 23 June, the project commenced and it will be completed in 30 months.

This a new award for Técnicas Reunidas in Mexico confirms the dedication and commitment 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 billion 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 \$8.1 billion 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.

Técnicas Reunidas also has extensive experience with energy production by nuclear plants. After the Fukushima accident in 2011, the need to increase investments in these types of plants became clear in order to comply with and improve security requirements. The immediate investment decisions were initially cancelled or stopped, but the long-term outlook for this type of energy continues to be positive. The International Energy Agency predicted in its latest annual report (World Energy Outlook 2017) that nuclear energy production will increase an average of 1.7% per year, rising from 2,571 TWh in 2015 to 3,844 TWh in 2040. This growth is associated with an estimated investment of \$1,100 billion in new plants and the modernization of existing plants over the coming 23 years, which would represent 2% of the total estimated investment in the energy sector. The start of a more normalized investment phase for these types of energy production facilities is progressively being observed.

In 2017, Técnicas Reunidas continued to render support engineering services to the operation of nuclear plants in Spain, as well as several nuclear projects outside of Spain, through its investee company Empresarios Agrupados:

- Support for the Almaraz 1 and 2 and Trillo nuclear plants, making modifications in the design, radiation protection services, operating support services, supply management, programmed stoppage support services for refuelling, post-Fukushima accident analyses, etc., in accordance with the requirements established by the CSN.
- Project concerning the filtered venting of the containment pool at C.N. Almaraz 1 and 2.
- Filtered Venting project for the Trillo plant containment pool
- Sundry operating support services for the Cofrentes nuclear plant.
- Sundry work at the Ascó 2 and Vandellós 2 nuclear plants.
- Engineering of the Temporary Centralized Warehouse (TCW) for highly radioactive waste that will be built in Villar de Cañas, Cuenca for ENRESA, as part of a consortium with Westinghouse.
- Engineering of the Temporary Centralized Warehouse (TCW) laboratories for highly radioactive waste that will be built in Villar de Cañas, Cuenca for ENRESA, as part of a consortium with Westinghouse.
- Preparation of the Temporary Individual Storage project (ATI) for the Almaraz nuclear plant.
- Support for ENRESA with respect to the supervision of the dismantling work at C.N. José Cabrera.
- Engineering to improve the electrical systems at the Krsko nuclear plant in Slovenia.
- Engineering services for the development of a radioactive waste management strategy in Mexico for CFE.
- Monitoring of the status of the buildings on the Nuclear Island at the Khemelnisky nuclear plant in Ukraine.
- Engineering services to prepare a disassembly plan for the Ukrainian nuclear plants.
- Ownership engineering, fulfilling the role of "Architect Engineer" for ITER, large installation of a fusion reactor located in Cadarache, France, through the consortium ENGAGE formed by Atkins, Assystem, EGIS and Empresarios Agrupados.
- Qualification of the Security System Instruments at the fusion reactor ITER in Cadarache, France.
- Review of the conceptual design and supporting analysis for safety pipelines and other items for the treatment of tritium for ITER in Cadarache, France.
- Thermo-hydraulic design of the TCWS refrigeration system for ITER.
- Engineering services for EURATOM regarding the DONES facility under the EUROfusion contract for a fusion material research facility.
- FEED engineering for the MYRRHA Research Reactor Projects in Belgium, in consortium with Areva and Ansaldo Nucleare.
- Management of the Project Management Unit at EBRD (European Bank for Reconstruction and Development) regarding the dismantling of units 1 through 4 (VVER-440 V230) at C.N. Kozloduy and the construction of a radioactive waste storage site in Bulgaria. In consortium with Nuvia.
- The Company supported the Regulator with the review of the Permit Application to use the planned nuclear plant location in Jordan.
- It provided civil engineering services for the EDF Hinkley Point C nuclear plant in Great Britain through EGIS.

Técnicas Reunidas also participated in the following nuclear project in 2017 through its Heat Transfer Division:

- Study to repair and update the heat exchangers in the Component Refrigeration System at the Almaraz 1 and 2 nuclear plants.

## 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.

It is also executing 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 focus 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 m<sup>2</sup> 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 promoted 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 CIEN 3R2020 project promoted 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 CIEN ESTEFI project promoted 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 LIGNOPRIEZED project under the CDTI CIEN program, 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 under the European Commission's H2020 program, 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 it owns.

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 ZINCEXTM for the recovery of Zn and ECOLEADTM 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

The Group prepares its consolidated annual accounts in accordance with International Financial Reporting Standards adopted by the European Union, IFRS-EU.

In 2017 the Group's net sales totalled €5,067 million, 6% more than last year due to a higher contribution from the contracts obtained in prior years. Operating Profit totalled €100 million, representing 2% of revenues. The lower profitability compared to last year is primarily related to the aforementioned circumstances regarding the delay in the start of certain new projects and the cost overruns in specific projects during their final phases that present high levels of uncertainty regarding their recovery. Profit after taxes amounted to €64 million.

### 4. BUSINESS MODEL

Técnicas Reunidas Group 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's engineering services are well positioned in the value chain in the oil, gas, energy, nitrogenized fertilizers, hydrometallurgy, water and infrastructure industries, which reinforces its competitiveness and the stability of its businesses.

TR has a series 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 and it assists them consolidate their 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 do you have a balanced distribution of its portfolio to be 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 m<sup>2</sup> 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 consolidated financial statements..

## 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 the cost estimates for projects. | Several factors may influence a change in project cost estimates compared to plans such as, for example, the contracting of turn-key projects (the complete price is closed at the start while execution costs may change), the volatility of raw material prices, or the sub-contracting of construction companies. | <ul style="list-style-type: none"> <li>– Development of new contracting formulas to mitigate risk.</li> <li>– Including derivative liability clauses in contracts with suppliers and subcontractors.</li> <li>– Intensive acquisition of the critical equipment that is highly sensitive to raw material prices during the first months of project execution.</li> <li>– Contracting of derivatives that allow the deferred acquisition of certain essential raw materials and equipment.</li> <li>– Distribution of the execution of work among several subcontractors and including subcontractors as project partners.</li> <li>– Including contingencies for deviations in budgets.</li> </ul> |

| Risk  | Description  | Main risk management and mitigation mechanisms  |
|---|--|---|
| 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.  | <ul style="list-style-type: none"> <li>– 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).</li> <li>– Mitigation of negotiation risks by the early detection of those matters that may represent a change in the contractual price.</li> </ul>   |
| 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.                         | <ul style="list-style-type: none"> <li>– 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.</li> <li>– Use of modular construction methods in locations with limited labour availability or where the site conditions allow for savings compared with other options.</li> <li>– Where possible, TR includes the resolution of disputes at courts or in arbitration in countries in which TR has experience.</li> <li>– Where possible, TR includes clauses that allow prices to be changed in the event of amendments to laws.</li> </ul> |
| 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.  | <ul style="list-style-type: none"> <li>– Concentration only in markets in which the Group has sufficient prior experience.</li> <li>– Diversification policy that allows TR to access very different markets.</li> <li>– Deployment of relevant commercial action with new customers in markets in which TR does not yet have a presence.</li> <li>– Atomization and diversification strategy for local and international construction suppliers.</li> </ul>  |
| Environmental and safety requirements.              | TR carries out projects with the risk of high impact on the environment or with risks to safety and health. The Group works to control and minimize those risks by collaborating with its subcontractors and suppliers in this area. | <ul style="list-style-type: none"> <li>– TR has an Environmental Management and Safety System.</li> <li>– Assurance of environmental management from the engineering phase. Extension of this assurance to suppliers and subcontractors through audits and training.</li> <li>– Reinforcement of the safety of processes from the design phase.</li> <li>– Promotion of occupational safety at suppliers and subcontractors.</li> </ul>   |
| 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.  | <ul style="list-style-type: none"> <li>– Continuous monitoring of the risks associated with currencies and the contracting of exchange hedges.</li> <li>– Management of a solid balance sheet and availability of adequate lines of financing.</li> <li>– 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.</li> <li>– Tax management by experts.</li> </ul>  |

| Risk  | Description  | Main risk management and mitigation mechanisms  |
|---|--|---|
| Information Technology.   | As the Group's digital presence has increased, the risk of intrusions into its systems by cybercriminals has increased.  | <ul style="list-style-type: none"> <li>– Information Security Management System certified in accordance with ISO 27001:2015.</li> <li>– Employee training on cybersecurity matters.</li> <li>– An Information Security Committee has been created that analyses the development of the strategic cybersecurity plan, the results of the audits and the primary risks faced.</li> </ul>  |
| 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. | <ul style="list-style-type: none"> <li>– Procedures to identify essential employees that must be retained and the application to them of policies that contribute to their retention.</li> <li>– Implementation of a flexible Human Resource structure to adapt with agility to changes in the market.</li> <li>– Global management of human resources to make the criteria applied at the various subsidiaries uniform.</li> </ul> |
| 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.                                 | <ul style="list-style-type: none"> <li>– Internal regulations and training to guarantee the proper behaviour of professionals and the availability of a Code of Conduct and a Whistle-blower Channel.</li> <li>– Demanding minimum requirements from suppliers and subcontractors regarding the environment, human rights, health and safety.</li> </ul>  |

## 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).

TR maintains a commitment to Human Rights 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 5 July 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 issued, 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<br>(parentheses indicate change vs 2016) |
|---|---|
| Energy consumption (Total consumption in GJ)  | 570,667 (25%)                                 |
| Emissions of greenhouse effect gases (total level 1 and level II tCO <sub>2eq</sub> 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).

## 7.4. Employees

### a. Management approach

TR globally manages 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<br>(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).

## 7.5. Occupational safety and health management

### a. Management approach

Since 2008 TR has had 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) for 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<br>(parentheses indicate change vs 2016) |
|------------------------------------|---|
| Lost time incidents (LTIR)**       | 0.03 (-25%)                                   |
| 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 incidents/No. of hours worked\* 200,000.

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

## 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<br>(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 in 2017).

## 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 whistle-blower 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<br>(parentheses indicate change vs 2016) |
|---|---|
| % of notifications received through the whistle-blower 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).

## 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 be 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.

TR's supply chain management has a framework of guidelines governing 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<br>(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).

## 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 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 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 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 Chair 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. AVERAGE PAYMENT PERIOD FOR SUPPLIERS

The average period of payment is as follows:

|                                    | 2017          | 2016      |
|------------------------------------|---------------|-----------|
|                                    | Días          | Días      |
| Average period of accounts payable | 74            | 70        |
| Ratio de paid operations           | 73            | 72        |
| Ratio of operations not paid       | 75            | 61        |
|                                    | Euro Thousand |           |
| Total paid                         | 1,263,261     | 1,484,737 |
| Total unpaid                       | 268,182       | 324,721   |

The Group is complying with the legally-mandated payment terms, with minor delays on invoices that do not meet the contractual conditions, either due to lack of official approval, missing guarantees or failure on the part of the supplier to meet other obligations under the signed order service agreement. Minor payment delays can be caused by any of these issues.

## 17. 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.

# VICE CHAIRMAN ANNUAL FINANCIAL STATEMENT 2017

The Board of Directors:

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José Lladó Fernández-Urrutia  
Chairman

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Juan Lladó Arburúa  
Vice Chairman °

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Fernando de Asúa Álvarez  
Vice Chairman 3°

---

Juan Miguel Antoñanzas Pérez-Egea  
Vice Chairman 2°

---

Javier Gómez-Navarro Navarrete  
Director

---

Álvaro García-Agulló Lladó  
Director

---

José Manuel Lladó Arburúa  
Director

---

Javier Alarcó Canosa  
Director

---

Diego del Alcázar y Silvela  
Director

---

Pedro Luis Uriarte Santamarina  
Director

---

William Blaine Richardson  
Director

---

Petra Mateos-Aparicio Morales  
Director

---

Adrián Lajous Vargas  
Director

Diligence made by the Secretary-Lawyer of the Board of Director to mention that, after the formulation of the Consolidated Financial Statement and Management Report of the financial year 2017 made on the meeting held on February 26, 2018, all the Directors have signed this last page of the document. Nevertheless, I CERTIFY that this Consolidated Financial Statement and Management Report are the same that were approved at the meeting of the Board of Directors previously mentioned, so I sign and stamp all its pages.

Laura Bravo  
Secretary of the Board of Directors







**TECNICAS REUNIDAS**

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