TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES

Auditors' Report

Consolidated financial statements at 31 December 2018

and consolidated management report for 2018

Independent Verification Report

TECNICAS REUNIDAS

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

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 2018, 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 31 December 2018, 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.

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.

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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Key Audit Matters	How our audit addressed the key audit matter
Recognition of revenue from construction contracts The revenue recognition criteria applied by the Group are based on the percentage completion method in accordance with IFRS 15. 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. 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. The information regarding construction contracts is set out in Notes 2.19, 4, 12 and 24 to the consolidated annual accounts. Given the relevance of the estimates used when recognizing revenue and their quantitative importance, this has been considered to be a key audit matter within our audit.	During our audit work we have taken into consideration our understanding of the controls over the process of estimating the margin obtained on long-term contracts. Our procedures include, among other things, the performance of tests of the design, implementation and operating effectiveness of certain relevant controls that mitigate the risks associated with the process of recognizing revenue from these types of construction contracts. To perform substantive tests we first selected a sample by applying quantitative and qualitative criteria, such as the identification of those relevant contracts either due to the total selling price of the contract or the amount of the revenue or margins recognized during the year, or the risk associated with the costs yet to be incurred to complete the contract. Additionally, we performed a selection based on statistical criteria for all of the remaining projects. We obtained the contracts relating to the selected projects so that we could read them and understand the most relevant clauses and their implications, as well as the budgets and execution oversight reports for those projects, and we performed the following procedures focusing on their main aspects: • We analysed the evolution of margins compared to changes in both the selling price and total budgeted costs. • We evaluated the coherence of the estimates made by the Group last year by comparing them against the actual data deriving from contracts in progress this year. • We recalculated the percentage of completion of each stage of the selected projects and compared it against the results obtained from the Group's calculations. • We obtained evidence of technical approvals regarding changes to the contract and claims made in negotiations with customers, as well as the status of financial negotiations. • We obtain explanations regarding the reconciliation between the financial information and the follow-up reports for the projects provided by project management.

Key Audit Matters	How our audit addressed the key audit matter
	Finally, we have verified that the information disclosures included in Notes 2.19, 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. During 2018, The Spanish Central Economic-Administrative Court (TEAC) has partially resolved in favor of the Group reducing the amount of the settlement by 20,972 thousand euros plus interest. The Parent Company maintains the necessary guarantees corresponding to these assessments. 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 27 to the consolidated annual accounts.	During the course of the audit we gained an understanding of the processes and evaluated the estimates used by management. To do so we obtained confirmation letters from attorneys to compare the assessment of the expected outcome, all related information and we identified potential liabilities and compared them against the 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.

Key Audit Matters	How our audit addressed the key audit matter
Given the relevance of the estimates used regarding the probability that the risk will materialize and the amount claimed by the tax authorities in the assessments raised, we have considered this to be a key audit matter.	
Deferred tax assets The consolidated balance sheet at 31 December 2018 includes a balance of €319,260 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 €41,676 thousand, primarily relating to tax-loss carry forwards, that will be recoverable in jurisdictions other than Spain. 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. The information relating to the deferred tax assets is disclosed in Note 27 to the consolidated annual accounts. 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.	We have obtained an understanding and analysed the estimation process applied by directors and by management, focusing our procedures on matters such as: • The process of preparing the business plan, which is substantially supported on projects in progress, projects in the portfolio and estimates regarding new project intake based on past information, prepared with the objective of evaluating the recognition, measurement and the capacity to recover the deferred tax assets. • The criteria used when calculating the deferred tax assets. • The base information used by management in its analysis regarding the recovery of deferred tax assets, verifying its congruence with the estimates regarding projects used in other areas of the audit such as revenue recognition or the assessment of the application of the going-concern principle. We have involved our internal tax experts when considering the reasonableness of the tax assumptions used based on applicable legislation, to ensure that they are complete and adequate. Finally, we have verified that Note 27 to the accompanying consolidated annual accounts contains the appropriate disclosures in this respect. The results of the procedures performed allowed us to reasonably obtain the audit objectives for which these procedures were designed.

Other information: Consolidated directors' report

Other information comprises only the consolidated directors' report for the 2018 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 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 2018 and its content and presentation are in accordance with applicable regulations.

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.

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:

- 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.

Report on other legal and regulatory requirements

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 28 February 2019.

Contract term

The General Shareholders Meeting held on 27 June 2018 appointed PricewaterhouseCoopers Auditores, S.L. as the Group's co-auditor for one year for the year ended 31 December 2018. On the other hand, the General Shareholders Meeting held on 29 June 2017 appointed 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.

Services rendered

Services other than audit rendered to the Group are those described in Note 35b) to the accompanying consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L.

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

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

28 February 2019

Deloitte, S.L.

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

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

28 February 2019

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TÉCNICAS REUNIDAS, S.A.
AND ITS SUBSIDIARIES

Consolidated annual accounts for the year ended December 31, 2018
and 2018 Consolidated Directors' Report

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CONSOLIDATED FINANCIAL STATEMENTS FOR TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2018

CONSOLIDATED BALANCE SHEET
(Amounts in thousands of euros)

		At 31 December	
	Note	**2018**	**2017**
ASSETS			
Non-current assets			
Property, plant and equipment	**6**	34,558	44,212
Goodwill	**7**	1,242	1,242
Other intangible assets	**7**	55,066	4,609
Investments in associates	**8**	12,728	13,386
Deferred tax assets	**27**	319,260	254,564
Derivative financial instruments	**9**	129	361
Accounts receivable and other financial assets	**9.12**	91,877	19,438
		514,860	**337,812**
Current assets			
Assets classified as held for sale	**7**	-	52,342
Inventories	**11**	23,037	17,923
Trade and other receivables	**10**	2,421,725	2,786,123
Accounts receivable and other financial assets	**9.12**	10,564	16,484
Derivative financial instruments	**9**	9,102	37,787
Financial assets at fair value through profit or loss	**9.13**	64,817	67,362
Cash and cash equivalents	**14**	680,780	569,939
		3,210,025	**3,547,960**
Total assets		**3,724,885**	**3,885,772**

The accompanying Notes 1 to 36 and Appendices I to IV are an integral part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2018

CONSOLIDATED BALANCE SHEET

(Amounts in thousands of euros)

	Note	At 31 December 2018	At 31 December 2017
EQUITY			
Share capital and Reserves attributable to the Company's shareholders			
Share capital	**15**	5,590	5,590
Share premium	**15**	8,691	8,691
Treasury shares	**15**	(74,116)	(73,041)
Voluntary reserve	**16**	1,137	1,137
Capitalisation reserve	**16**	3,056	3,056
Hedging reserve	**9**	(7,292)	15,836
Cumulative translation differences	**17**	(38,528)	(31,840)
Retained earnings	**18**	446,478	551,494
Interim dividend	**18**	-	(35,852)
Equity attributable to shareholders		**345,015**	**445,071**
Non-controlling interests	**18**	**13,571**	**18,233**
Total equity		**358,587**	**463,304**
LIABILITIES			
Non-current liabilities			
Borrowings	**9.20**	388,491	92,215
Derivative financial instruments	**9**	1,242	2,489
Deferred tax liabilities	**27**	54,293	39,520
Other accounts payable	**9.19**	356	288
Other financial liabilities	**9**	42	42
Employee benefit obligations		2,465	2,174
Provisions for contingencies and charges	**21**	39,639	43,202
		486,527	**179,930**
Current liabilities			
Trade payables	**19**	2,654,069	2,796,013
Current tax liabilities	**27**	33,660	64,370
Borrowings related to assets classified as held for sale	**7**	-	21,546
Borrowings	**9.20**	99,402	292,219
Derivative financial instruments	**9**	55,044	28,423
Other accounts payable	**9.19**	7,733	36,329
Provisions for contingencies and charges	**21**	29,863	3,638
		2,879,771	**3,242,538**
Total liabilities		**3,366,298**	**3,422,468**
Total equity and liabilities		**3,724,885**	**3,885,772**

The accompanying Notes 1 to 36 and Appendices I to IV are an integral part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2018

CONSOLIDATED INCOME STATEMENT
(Amounts in thousands of euros)

	Note	Year ended 31 December	
		2018	**2017***
Revenue	**22**	4,396,328	5,067,944
Changes in inventories		5,125	1,013
Procurements	**23**	(3,441,772)	(4,052,019)
Employee benefit expense	**24**	(584,033)	(581,498)
Depreciation, amortisation and impairment losses	**6 and 7**	(18,949)	(28,177)
Lease and royalty expenses	**25**	(64,520)	(73,985)
Other operating expenses	**23**	(256,846)	(247,415)
Other operating income	**23**	6,806	8,129
Profit from operations		**42,139**	**93,992**
Finance income	**26**	3,936	8,923
Finance costs	**26**	(22,774)	(16,171)
Share in profit/(loss) of associates	**8**	(1,011)	(2,288)
Profit before tax		**22,290**	**84,456**
Income tax	**27**	(7,843)	(25,490)
Profit from continuing operations		**14,447**	**58,966**
Profit for the year		**14,447**	**58,966**
Attributable to:			
Company shareholders	**18**	11,974	39,527
Non-controlling interests	**18**	2,473	19,439
		14,447	**58,966**
Earnings per share for profit attributable to the equity holders of the Company (expressed in euros per share):			
- Basic and diluted	**28**	0.22	0.73

*Restated (see Note 2.1)

The accompanying Notes 1 to 36 and Appendices I to IV are an integral part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Amounts in thousands of euros)

		Year ended 31 December	
	Notes	**2018**	**2017***
Profit for the year		**14,447**	**58,966**
Other comprehensive income:			
Items that will not be reclassified to profit or loss		-	-
Changes in the fair value of financial instruments		(6,394)	-
Tax effect		1,947	-
Total items that will not be reclassified to profit or loss		**(4,447)**	**-**
Items that may be reclassified to profit or loss			
Cash flow hedges	**9**	(29,356)	111,839
Tax effect		6,228	(22,576)
Cash flow hedges, net of tax		(23,128)	89,263
Exchange differences on translation of foreign operations	**17**	(6,619)	(41,348)
Total items that may be reclassified to profit or loss		**(29,747)**	**47,915**
Other comprehensive income for the year, net of tax		**(34,194)**	**47,915**
Total comprehensive income for the year		**(19,747)**	**106,881**
Attributable to:			
Owners of the Parent		(22,289)	87,611
Non-controlling interests		2,542	19,270
Total comprehensive income for the year		**(19,747)**	**106,881**
Total comprehensive income attributable to the owners of the Parent arising from:			
Continuing operations		(22,289)	87,611
		(22,289)	**87,611**

*Restated (see Note 2.1)

The accompanying Notes 1 to 36 and Appendices I to IV are an integral part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES
AT 31 DECEMBER 2018
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Amounts in thousands of euros)

	Attributable to equity holders of the Company									
	Share capital (Note 15)	**Share premium** (Note 15)	**Treasury shares** (Note 15)	**Voluntary and capitalisation reserves** (Note 16)	**Hedging reserve** (Note 9)	**Cumulative translation differences** (Note 17)	**Retained earnings** (Note 18)	**Interim dividend** (Note 18)	**Non-controlling interests** (Note 18)	**Total equity**
Balance at 31 December 2017	**5,590**	**8,691**	**(73,041)**	**4,193**	**15,836**	**(31,840)**	**551,494**	**(35,852)**	**18,233**	**463,304**
Adjustment for the adoption of IFRS 9 (net of tax) (Note 2)	-	-	-	-	-	-	(19,829)	-	-	(19,829)
Adjustment for the adoption of IFRS 15 (net of tax) (Note 2)	-	-	-	-	-	-	(34,425)	-	-	(34,425)
Balance at 1 January 2018	**5,590**	**8,691**	**(73,041)**	**4,193**	**15,836**	**(31,840)**	**497,240**	**(35,852)**	**18,233**	**409,050**
Comprehensive income										
Profit for 2018	-	-	-	+ -	-	-	11,974	-	2,473	14,447
Other comprehensive income										
Cash flow hedges, net of tax	-	-	-	-	(23,128)	-	-	-	-	(23,128)
Changes in the fair value of financial instruments	-	-	-	-	-	-	(4,447)	-	-	(4,447)
Exchange differences on translation of foreign operations	-	-	-	-	-	(6,688)	-	-	69	(6,619)
Total other comprehensive income	-	-	-	-	(23,128)	(6,688)	(4,447)	-	69	(34,194)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(23,128)**	**(6,688)**	**7,527**	**-**	**2,542**	**(19,747)**
Transactions with owners in their capacity as such:										
Treasury share transactions (net)	-	-	(1,075)	-	-	-	(280)	-	-	(1,355)
Distribution of 2017 profit	-	-	-	-	-	-	(50,000)	35,852	(7,204)	(21,352)
Other changes	-	-	-	-	-	-	(8,009)	-	-	(8,009)
Total transactions with owners in their capacity as such	**-**	**-**	**(1,075)**	**-**	**-**	**-**	**(58,289)**	**35,852**	**(7,204)**	**(30,716)**
Balance at 31 December 2018	**5,590**	**8,691**	**(74,116)**	**4,193**	**(7,292)**	**(38,528)**	**446,478**	**-**	**13,571**	**358,587**

The accompanying Notes 1 to 36 and Appendices I to IV are an integral part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES
AT 31 DECEMBER 2018

(Amounts in thousands of euros)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								Non-controlling interests	Total equity
	Share capital (Note 15)	Share premium (Note 15)	Treasury shares (Note 15)	Voluntary and capitalisation reserves (Note 16)	Hedging reserve (Note 9)	Cumulative translation differences (Note 17)	Retained earnings (Note 18)	Interim dividend (Note 18)	(Note 18)	
Balance at 1 January 2017	**5,590**	**8,691**	**(72,623)**	**4,193**	**(73,427)**	**(17,630)**	**618,782**	**(35,852)**	**4,102**	**441,826**
Comprehensive income										
Profit for 2017	-	-	-	-	-	-	39,527	-	19,439	58,966
Other comprehensive income										
Cash flow hedges, net of tax	-	-	-	-	89,263	-	-	-	-	89,263
Exchange differences on translation of foreign operations	-	-	-	-	-	(41,348)	-	-	(169)	(41,517)
Total other comprehensive income	-	-	-	-	89,263	(41,348)	-	-	(169)	47,746
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**89,263**	**(41,348)**	**39,527**	**-**	**19,270**	**106,712**
Transactions with owners in their capacity as such:										
Treasury share transactions (net)	-	-	(418)	-	-	-	(774)	-	-	(1,192)
Distribution of 2016 profit	-	-	-	-	-	-	(75,000)	35,852	(5,139)	(44,287)
Distribution of 2017 interim dividend	-	-	-	-	-	-	-	(35,852)	-	(35,852)
Transfers between reserves (Note 19)	-	-	-	-	-	27,138	(27,138)	-	-	-
Other changes	-	-	-	-	-	-	(3,903)	-	-	(3,903)
Total transactions with owners in their capacity as such	**-**	**-**	**(418)**	**-**	**-**	**27,138**	**(106,815)**	**-**	**(5,139)**	**(85,234)**
Balance at 31 December 2017	**5,590**	**8,691**	**(73,041)**	**4,193**	**15,836**	**(31,840)**	**551,494**	**(35,852)**	**18,233**	**463,304**

The accompanying Notes 1 to 36 and Appendices I to IV are an integral part of these consolidated financial Consolidated.

CONSOLIDATED FINANCIAL STATEMENTS FOR TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES AT 31 December 2018

CONSOLIDATED STATEMENT OF CASH FLOWS
(Amounts in thousands of euros)

	Notes	Year ended 31 December	
		2018	2017
Cash flows from operating activities			
Profit for the year		14,447	58,966
Adjustments for:			
- Taxes	**27**	7,843	27,173
Depreciation/amortisation of property, plant and equipment and intangible assets	**6 and 7**	18,608	21,527
- Net change in provisions	**21**	22,663	4,615
- Share in profit/(loss) of associates	**8**	1,011	2,288
- Change in fair value of financial instruments	**26**	2,546	(3,198)
- Interest income	**26**	(6,483)	(5,725)
- Interest expense	**26**	10,563	8,811
- Change in gains/(losses) on derivatives	**9**	12,980	(39,376)
- Impairment losses	**7**	(2,697)	6,697
- Exchange differences	**26**	12,211	7,033
- Other income and expenses		1,145	10,266
Changes in working capital:			
- Inventories		(5,115)	(931)
- Trade and other receivables		185,524	(397,044)
- Other financial assets		1,029	(5,300)
- Trade payables		(146,029)	191,799
- Other accounts payable		(15,497)	(5,548)
- Hedging derivatives settlements and other changes		11,955	9,736
Other cash flows from operating activities			
- Interest paid		(8,874)	(8,811)
- Interest received		6,483	5,725
- Taxes paid		(16,606)	(58,111)
Net cash flows from operating activities		**107,707**	**(169,408)**
Cash flows from investing activities			
Acquisition of property, plant and equipment	**6**	(3,947)	(12,716)
Acquisition of intangible assets	**7**	(2,097)	(1,166)
Investments in associates	**8**	(850)	(2,785)
Disposal of non-current assets		574	2,542
Net cash flows used in investing activities		**(6,320)**	**(14,125)**
Cash flows from financing activities			
Proceeds from borrowings		411,013	525,379
Repayment of borrowings		(343,000)	(384,009)
Dividends paid	**18**	(57,204)	(75,000)
Acquisition/disposal of treasury shares (net)	**15**	(1,354)	(1,168)
Net cash flows used in financing activities		**9,455**	**65,202**
Net change in cash and cash equivalents		**110,842**	**(118,331)**
Cash and cash equivalents at beginning of year		**569,938**	**688,269**
Cash and cash equivalents at end of year		**680,780**	**569,938**

The accompanying Notes 1 to 38 and Appendices I to IV are an integral part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES AT 31 December 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands of euros)

1. General information

TÉCNICAS REUNIDAS, S.A. (the "Company" or the "Parent") and its subsidiaries (together, the "Group") was incorporated on 6 July 1960 as a public limited liability company. It is registered with the Mercantile Registry of Madrid in volume 1,407, sheet 5,692, page 129. The latest adaptation and amendment of its Articles of Association is registered in volume 22,573, section 8, book 0, page 216, sheet M-72319, entry 192.

The registered office of TÉCNICAS REUNIDAS, S.A. is located at Calle Arapiles 14, 28015, Madrid, Spain. Its headquarters are located at Calle Arapiles 13, 28015, Madrid, Spain.

The Company's corporate purpose is described in article 4 of the Articles of Association and consists of the performance of all manner of engineering and construction services for industrial plants, ranging from viability or basic and conceptual engineering studies to large and complex turnkey engineering and design 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 various business lines, mainly in the oil and gas, power and infrastructure sectors.

Since 21 June 2006, all shares of Técnicas Reunidas, S.A. have been admitted to trading, are listed on the continuous market and form part of the Ibex 35 index.

The Group's consolidated financial statements for 2017 were approved by the shareholders at the Annual General Meeting on 27 June 2018.

These consolidated financial statements were authorised for issue by the Parent's Board of Directors on 27 February 2019. The Parent's directors will submit these consolidated financial statements at the Annual General Meeting, and it is expected that they will be approved without any changes.

2. Summary of the main accounting policies

The main accounting policies applied in the preparation of these consolidated financial statements are set out below.

2.1. Basis of presentation

The Parent's directors prepared the Group's consolidated financial statements for the year ended 31 December 2018 in accordance with the International Financial Reporting Standards as adopted by the EU ("EU-IFRSs") and approved by the European Commission Regulations, and that were in force at 31 December 2018, and with all prevailing IFRIC interpretations and corporate law applicable to companies reporting under EU-IFRSs.

Unless indicated otherwise, the policies explained below were applied consistently to all years in which these consolidated financial statements are presented.

The consolidated financial statements have been prepared from the accounting records of Técnicas Reunidas, S.A. and its subsidiaries, present a fair view of the Group's consolidated equity, financial position at 31 December 2018, as well as the consolidated results, the changes in consolidated equity and the consolidated cash flows in the year then ended, and have been prepared on a historical cost basis adjusted by the criteria for recognising assets available for sale and assets and liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of these consolidated financial statements in accordance with EU-IFRSs requires the use of certain critical accounting estimates. It also requires management to make judgements in the application of the Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

For information comparison purposes, the Group presents, together with the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the years ended 31 December 2018 and 2017. The Group presents comparative information in the explanatory notes to the consolidated financial statements when is relevant to an understanding of the current year's consolidated financial statements.

Given that the concession activities were no longer considered discontinued operations in 2018, the consolidated income statement and the consolidated statement of comprehensive income for 2017 were restated to the comparable to those of 2018. The effect on the consolidated income statement is as follows:

Consolidated income statement Thousands of euros	**2017**	**Discontinued operations 2017**	**2017 restated**
Other operating income	1,829	6,300	8,129
Depreciation, amortisation and impairment losses	(21,507)	(6,670)	(28,177)
Other operating expenses	(241,380)	(6,035)	(247,415)
Profit from operations	**100,397**	**(6,405)**	**93,992**
Finance costs	(15,844)	(327)	(16,171)
Profit before tax	**91,188**	**(6,732)**	**84,456**
Income tax	(27,173)	1,683	(25,490)
Profit from continuing operations	**64,015**	**(5,049)**	**58,966**
Profit for the year from discontinued operations	(5,049)	5,049	-
Profit for the year	**58,966**	**-**	**58,966**

The assets classified as held for sale and the borrowings related to assets classified as held for sale was reclassified under "Other intangible assets" and "Borrowings", respectively.

The figures contained in these consolidated financial statements are shown in thousands of euros, unless expressly stated otherwise.

2.1.1 Changes in accounting policies and breakdowns

a) Mandatory standards, amendments and interpretations for all annual periods beginning on or after 1 January 2018:

As a result of their approval, publication and entry into force on 1 January 2018, the following standards have been applied:

- **IFRS 15 "Revenue from contracts with customers" and IFRS 15 (Amendment) "Clarifications to IFRS 15 'Revenue from contracts with customers'"**

As of 1 January 2018, IFRS 15 replaced the following standards:

- IAS 18 Revenue,
- IAS 11 Construction contracts,
- IFRIC 13 Customer loyalty programmes,
- IFRIC 15 Agreements for the construction of real estate,
- IFRIC 18 Transfers of assets from customers, and
- SIC-31: Revenue - Barter transactions involving advertising services.

In accordance with IFRS 15, revenue must be recognised such that the transfer of goods or services to customers is shown for an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This approach is based on five steps:

• Step 1: Identify the contract(s) with a customer.
• Step 2: Identify the performance obligations in the contract.
• Step 3: Determine the transaction price.
• Step 4: Allocate the transaction price to the performance obligations in the contract.
• Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

In accordance with IFRS 15, revenue must be recognised as the obligations included in the contract are paid. The Group applied this standard as of 1 January 2018, after having updated its internal policies that determined the criteria for applying IFRS 15 in Técnicas Reunidas' business and to the various types of contracts.

The main impacts identified related basically to the following:

- Identification of the various performance obligations in the 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 performance of the contract. With the new standard, each contract needs to be assessed with regard to whether various performance obligations should be recognised (IFRS 15 p. 22) and the allocation of prices on the basis of the contracts, provided they are set at arm's length. However, given the general characteristics of turnkey contracts (EPC) undertaken by the Group, no significant impact was generated.

- Approval requirements in revenue recognition due to contract amendments and items for which claims can be submitted. IFRS 15 requires approval by the customer (IFRS 15 p. 18), which is more demanding that 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 revenue recognition as the new standard establishes more restrictive criteria. The negative impact on equity assigned to the shareholders in this regard amounts to EUR 34,425 thousand at 1 January 2018 (an amount that reduced "Trade receivables" by EUR 43,031 thousand and "Deferred taxes" by EUR 8,606 thousand).

- 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 analysed the impacts resulting from this change, however, they have not had a significant impact.

- 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 to the criteria currently used by the Group.

The Group's accounting policies were updated in accordance with the above-mentioned criteria.

With regard to the information systems, the current systems for maintaining and the controls established therein were adapted to the new standard.

- **IFRS 9 Financial instruments**

As of this year, IFRS 9 Financial instruments replaces IAS 39. The main changes affect the classification and measurement of financial assets and liabilities, the impairment model of financial assets and hedge accounting.

IFRS 9 was applied on 1 January 2018, without restating the comparative information in relation to 2017.

<u>Classification of financial assets and liabilities</u>

At 1 January 2018, financial assets were classified as financial assets measured at amortised cost or as financial assets measured at fair value through profit or loss or through other comprehensive income.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Investments in debt within a business model that consist solely of collections of principal and interest upon maturity are measured in general at amortised cost. For those investments in debt within a business model that consists of collections of principal and interest upon maturity and the sale of investments, they are measured at fair value through other comprehensive income. Other investments in debt and equity are measured at fair value through profit or loss, unless the decision is voluntarily, and irrevocably, taken to choose the option of measuring certain investments in equity at fair value through other comprehensive income. In this case, after disposing of the investment, the standard does not allow the cumulative impact on other comprehensive income to be reclassified to the income statement. The Group has voluntarily and irrevocably decided to take this option.

The reconciliation of the classification and measurement of the financial assets under IAS 39 and IFRS 9 on the date of first-time application is detailed as follows:

Type of instrument	Classification at 31/12/2017 (IAS 39)	Classification at 01/01/2018 (IFRS 9)
Trade and other receivables	Loans and receivables	Amortised cost
Available-for-sale financial assets	Available for sale	Fair value through other comprehensive income
Derivative financial instruments*	Financial assets held for trading	Fair value through profit or loss
Financial assets at fair value through profit or loss	Financial assets held for trading	Fair value through profit or loss

(*) For those derivatives not designated as hedges.

There was no impact on financial liabilities as a result of applying IFRS 9.

Impairment of financial assets

The new impairment model requires that a provision be recognised for impairment based on expected loss, rather than the incurred loss model of IAS 39. IFRS 9 requires an impairment loss to be recognised for all financial instruments that are not measured at fair value.

The application of the impairment model as a result of credit risk based on expected loss entailed a net impact at 1 January 2018 of EUR 19,829 thousand, net of tax. This impact was recognised under “Retained earnings” in equity.

Hedge accounting

The Group decided to apply the new hedge accounting model of IFRS 9. This new model attempts to align the accounting criteria with risk management. In addition, it allows greater flexibility in relation to hedge accounting and with regard to the effectiveness of the hedges, it eliminates the requirement of retrospective assessment.

The Group has performed an analysis where it has identified the differences in the processes and has implemented changes in its systems and controls necessary to properly document the hedging derivatives in accordance with IFRS 9.

Effect of IFRS 9 and IFRS 15 on the consolidated balance sheet at 1 January 2018

The effects on the consolidated balance sheet at 1 January 2018 as a result of adopting IFRS 9 and IFRS 15 as detailed above are as follows:

	01/01/2018	IFRS 9	IFRS 15	01/01/2018 included IFRS 9 and 15 adjustments
ASSETS				
NON-CURRENT ASSETS	**337,812**	**540**	**8,606**	**346,958**
Accounts receivable and other financial assets	18,422	(6,070)	-	12,352
Deferred tax assets	254,564	6,610	8,606	269,780
CURRENT ASSETS	**3,547,960**	**(20,369)**	**(43,031)**	**3,484,560**
Trade and other receivables	2,786,123	(20,369)	(43,031)	2,736,379
TOTAL ASSETS	**3,885,772**	**(19,829)**	**(34,425)**	**3,831,518**
EQUITY AND LIABILITIES	**463,304**	**(19,829)**	**(34,425)**	**409,050**
Retained earnings	551,494	(19,829)	(34,425)	497,240
NON-CURRENT LIABILITIES	**179,930**	-	-	**179,930**
CURRENT LIABILITIES	**3,242,538**	-	-	**3,242,538**
TOTAL EQUITY AND LIABILITIES	**3,885,772**	**(19,829)**	**(34,425)**	**3,831,518**

The Group decided to group together “Accounts receivable and other assets” and “Available-for-sale financial assets” in non-current assets within “Accounts receivable and other financial assets” in non-current assets.

There was no significant impact on the consolidated income statement, on the consolidated statement of cash flows or on basic or diluted earnings per share.

Other amendments and/or interpretations that were approved by the EU and that entered into force on 1 January 2018

Annual improvements to IFRSs, 2014-2016 Cycle: Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 28 Investments in associates and joint ventures.

Amendments to IFRS 2: Classification and measurement of share-based payment transactions.

Amendments to IAS 40: Transfers of investment property.

Amendments to IFRS 4: Insurance contracts.

IFRIC 22: Foreign currency transactions and advance consideration.

The application of these amendments and interpretations did not have a significant effect on the interim financial statements.

b) Standards, amendments and interpretations that have not yet entered into force but that may be adopted early for annual periods beginning on or after 1 January 2018:

At the date of authorisation for issue of these consolidated financial statements, the IASB and the IFRS Interpretations Committee had issued the following standards, amendments and interpretations, the application of which is not mandatory and that the Group has not applied early:

- IFRS 16 “Leases”

IFRS 16 is effective for all years beginning on or after 1 January 2019, whereby it may be applied early and may be applied retroactively in full or through modified retroactive transition. The Group has opted not to apply IFRS 16 early.

This standard replaces the current standards on leases, including IAS 17 Leases, IFRIC 4 Determination of whether an arrangement contains a lease, SIC-15 Operating leases - Incentives, and SIC-27 Evaluation of the substance of the transactions with the legal form of a lease.

IFRS 16 establishes a single accounting model for leases on the balance sheet of the lessee. The lessee recognises the right to use an asset that represent their right to use this asset and a liability that represents their obligation to make lease payments. The standard includes two exceptions to recognising the rights of use in the accounting of the lessees, leases of low-value assets and short-term leases (agreements with a lease term of less than 12 months)

IFRS 16 establishes that lessees must recognise a financial liability on the consolidated balance sheet for the present value of the payments to be made for the remaining term of the lease agreement and an asset for the right to use the underlying asset, which is measured by using the amount of the associated liability as a reference, plus any initial direct costs incurred.

In addition, the expenses related to these lease agreements that are currently recognised under “Lease and royalty expenses” will be presented, in accordance with the requirements of IFRS 16, as amortisation expenses for the right to use the assets and as finance costs for the liabilities associated with the leases. The standard does not substantially change with regard to the current accounting by the lessor, which must continue to classify each lease as an operating lease or a finance lease, depending on the degree in which the risks and rewards incidental to ownership are substantially transferred.

The Group has applied the following policies, estimates and criteria:

- The Group plans to initially apply IFRS 16 as of 1 January 2019, by means of the modified retrospective method, therefore recognising the cumulative effect of the initial application on the date of initial application, without restating the comparative information. Furthermore, the Company decided to measure the initial right to use the asset at an amount equal to the lease liability at 1 January 2019 for all lease agreements.

- The exceptions applied for recognising leases in which the underlying asset is of low value (less than USD 5,000) and short-term leases (maturing in less than or equal to 12 months). Likewise, this standard was not applied to intangible assets.

- The practical expedient indicated in paragraph C3 of appendix C of IFRS 16 was applied, which stipulates that an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application.

- The Company decided not to recognise lease components separately from non-lease components for those classes of assets in which the relative importance of these components is not significant with regard to the total value of the lease.

- An incremental borrowing rate was applied for each homogeneous lease portfolio, country and term of the agreement, obtained in each case from market data. The interest rate ranges from 1.30% to 3.28%.

- To determine the lease term as the non-cancellable period of a lease, the Group has taken into consideration the initial period of each agreement, unless it has a unilateral option to extend or terminate the lease, and whether there is reasonable certainty that this option will be exercised, in which case the corresponding period for the extension or early termination of the lease will be considered. Given the Group's activities and the type of assets subject to lease agreements, in most cases the term of the leases coincides with the non-cancellable period (with the exception of certain offices).

The estimated impacts for the Técnicas Reunidas Group as a result of the initial application of IFRS 16 as of 1 January 2019 are as follows:

a) Recognition of assets under "Right-of-use assets" (non-current assets) and "Non-current and current financial liabilities arising from leases" amounting to EUR 57,286 thousand, which basically relate to office and vehicle leases.

The difference between the estimate included in this note and the commitments detailed in Note 25 is due mainly to the effect of the interest rate and the exemptions for short-term leases or leases for low-value assets.

- IFRIC 23: Uncertainty over income tax treatments
- Amendments to IFRS 9: Prepayment features with negative compensation
- Amendments to IAS 28: Long-term interests in associates and joint ventures

These amendments are effective for years beginning on or after 1 January 2019. The Group does not expect the impact of adopting this interpretation to be significant.

c) Standards, amendments and interpretations of existing standards that cannot be adopted early or that have not been adopted by the EU

At the date of authorisation for issue of these consolidated financial statements, the IASB and the IFRS Interpretations Committee had issued the following standards, amendments and interpretations that have yet to be adopted by the EU.

- IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associate or joint venture"
- IFRS 17 "Insurance contracts"
- IAS 28 (Amendment) "Long-term interests in associates and joint ventures"
- Annual improvements to IFRSs. 2015-2017 Cycle
    - IFRS 3 "Business combinations"
    - IFRS 11 "Joint arrangements"
    - IAS 12 "Income taxes"
    - IAS 23 "Borrowing costs"
- IAS 19 (Amendment) "Plan amendment, curtailment or settlement"
- IFRS 3 (Amendment) "Definition of a business"
- IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of material"

The Group is currently analysing the impacts that the new standard may have on its consolidated financial statements, if it is adopted by the EU.

2.2. Basis of consolidation

Scope of consolidation

The scope of consolidation of Técnicas Reunidas includes Técnicas Reunidas, S.A., the Parent, its subsidiaries and associates. The Group also has joined interests with other entities for investees in jointly controlled entities and unincorporated temporary joint ventures ("UTEs"). Appendices I, II, III and IV to these notes to the financial statements include additional information with regard to the entities included in the scope of consolidation.

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

For the purpose of preparing these consolidated financial statements, a group is considered to exist when the Parent has one or more subsidiaries over which this Parent has direct or indirect control.

The Parent and certain subsidiaries also have interests in UTEs and consortiums, and the figures for the relevant assets, liabilities, income and expenses corresponding to the UTEs and consortiums are included on a proportionate basis. Appendix IV lists the UTEs and consortiums in which the Group companies have interests.

The changes in the scope of consolidation in 2018 were as follows:

- The following companies were incorporated:
  - TRD DUQM PROJECT LLC, 65% of which is owned by Técnicas Reunidas, S.A.
  - TTSJV WLL, 32% of which is owned by TECNICAS REUNIDAS SAUDIA FOR SERVICES AND CONTRACTING COMPANY LIMITED. (joint control)
  - TR Italy, which is wholly owned by Técnicas Reunidas, S.A.
  - Técnicas Reunidas LLC, 50% of which is owned by Técnicas Reunidas, S.A. and Técnicas Reunidas Proyectos Internacionales, S.A.U., respectively.

The changes in the scope of consolidation in 2017 were as follows:

- Deportes Valdavia 2017, S.L., wholly owned by Técnicas Reunidas, S.A., and Valdavia Padel, S.L. and Valdavia Gim, S.L., wholly owned by Deportes Valdavia, S.L., were incorporated.

- KJT Engenharia, Materiais was excluded from the scope of consolidation, as a result of its liquidation.

There were no business combinations in 2018 or 2017.

i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed or has the right to obtain variable returns from its involvement in the investee and has the ability to use its power over this entity to influence these returns. Subsidiaries are consolidated from the date on which control passes to the Group, and are excluded from consolidation on the date on which control ceases to exist.

The subsidiaries are fully consolidated and all their assets, liabilities, income, expenses and cash flows are included in the consolidated financial statements after transactions and balances between Group companies are eliminated. The accounting policies of the subsidiaries have been modified when necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in profit or loss and equity of the subsidiaries is shown separately in the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity and the consolidated statement of comprehensive income.

Appendix I to these notes provides a breakdown of the details on the subsidiaries included in the scope of consolidation through full consolidation.

Changes in the ownership interests in subsidiaries without change of control

Transactions with non-controlling interests resulting in a loss of control are recognised as equity transactions, i.e., as transactions with owners in their capacity as such. The difference between the fair value of the consideration paid and the relevant portion acquired of the carrying amount of the subsidiary's net assets is recognised under equity. Gains or losses on the disposal of non-controlling interests are recognised under equity.

Disposals and liquidations of subsidiaries

With the exception of that described above, no subsidiaries were disposed of or liquidated in 2018 or 2017.

ii) Associates

Associates are all entities over which the Group exercises significant influence but not control, which is generally accompanied by an ownership interest of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or reduced to recognise the investor's interest in the results of the investee following the acquisition date. The Group's investment in associates includes goodwill identified on acquisition.

If its ownership interest in an associate is reduced but significant influence is maintained, only the proportionate interest of the amounts previously recognised in other comprehensive income is reclassified, where appropriate, to the income statement.

The Group's share of its associates' post-acquisition gains or losses is recognised in the income statement and its share of post-acquisition changes in other comprehensive income is recognised in other comprehensive income with the relevant adjustment to the carrying amount of the investment. When the Group's share in the losses of an associate is equal to or exceeds its interest in the associate, including any other unsecured receivables, it does not recognise further losses, unless it has assumed legal or implicit commitments or made payments on behalf of the associate.

At each financial reporting date, the Group determines whether there is any objective evidence that the investment in the associate has become impaired. If this is the case, the Group calculates the amount of the impairment loss as the difference between the recoverable amount of the associate and its carrying amount and recognises the underlying amount under "Share of profit/(loss) of an associate" in the income statement.

Profit and loss resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only if they correspond to unrelated investors' interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment loss on the asset transferred. The accounting policies of the associates have been modified when necessary to ensure consistency with the policies adopted by the Group.

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

No associate was sold in 2018 or 2017, however, in 2018 the Company no longer had significant influence over the water treatment project.

Appendix II to these notes provides a breakdown of the details on the associates accounted for using the equity method.

iii) Joint arrangements

The Group applies IFRS 11 to all joint arrangements. Investments in joint arrangements under IFRS 11 are classified as joint operations or joint ventures, 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 classified as joint operations.

Joint operations mean that a venturer has direct rights over the assets, liabilities, income and expenses of the entity in which it has an interest. Accordingly, joint ventures arise when a venturer has the right to the profit or loss or to the net assets of the entity in which it has an interest and, therefore, its interest in the entity is recognised using the equity method.

iv) Equity method

Under the equity method, interests in joint ventures are initially recognised at cost and subsequently adjusted to recognise the Group's share in the profit and loss subsequent to the acquisition and the changes in other comprehensive income. When the Group's share in the losses of a joint venture is equal to or greater than its interests in the joint venture (including any long-term interest that, in substance, forms part of the Group's net investment in the joint ventures), the Group does not recognise any additional losses, unless they have been incurred in obligations or made payments on behalf of the joint ventures.

When the Group no longer accounts for an investment using the equity method as a result of a loss of control, joint control or significant influence, any retained interest in the Company is once again measured at its fair value through changes in the carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purpose of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amount previously recognised in other comprehensive income in relation to this company is accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If its ownership interest in a joint venture or an associate is reduced but significant influence is maintained, only the proportionate interest of the amounts previously recognised in other comprehensive income is reclassified, where appropriate, to the income statement.

Appendix III to these notes provides a breakdown of the details on the joint arrangements included in the scope of consolidation for the years ended 31 December 2018 and 2017.

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

The impairment loss on the carrying amount of the investments accounted for using the equity method is verified in accordance with the policy described in Note 2.8.

v) Unincorporated temporary joint ventures (UTEs)

An unincorporated temporary joint ventures (UTE) is an arrangement between companies, for a specified or unspecified period of time, to carry out or execute works, services or supplies.

The proportional amount of the line items of the UTE's balance sheet and income statement are included in the balance sheet and income statement of the venturer depending on its percentage of ownership interest and the cash flows in the statement of cash flows.

Appendix IV to these notes provides a breakdown of the details on the UTEs whose financial information is recognised by the companies included in the scope of consolidation.

2.3. Segment reporting

The information on segments is presented in accordance with the internal information provided to the chief operating decision maker (Note 5).

The accounting policies applied to prepare the segment information are the same as those described in these consolidated financial statements.

The chief operating decision maker is the Parent's Board of Directors.

2.4. Foreign currency transactions

Functional and presentation currency

The items included in these consolidated financial statements for each Group company are measured using the currency of the principal economic environment in which the Company operates, i.e., the currency that mainly affects income and expenses ("functional currency"). The consolidated financial statements are presented in euros.

Transactions and balances

Transactions in foreign currencies 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 foreign currency 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, unless they are deferred to other comprehensive income, as in the case of qualifying cash flow hedges.

Foreign exchange gains and losses are recognised under gains or losses on foreign currency transactions included under finance income or finance costs in the income statement.

Group companies

The profit or loss and balance sheet of all Group companies whose functional currency is different from the presentation currency are translated to the presentation currency as follows

(i) Assets and liabilities on each balance sheet presented are translated at the exchange rate prevailing at each balance sheet date;
(ii) Income and expenses in the income statement are translated at the average exchange rate;
(iii) Equity items (except for income statement 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 are translated at the closing rate. Exchange differences that arise are recognised under "Exchange differences on translation of foreign operations" in the consolidated statement of comprehensive income.

2.5. Property, plant and equipment

The Group follows the historical cost model, whereby the items of property, plant and equipment are recognised at their initial cost less any accumulated depreciation and accumulated impairment losses, except in the case of land, which is not depreciated and is presented net of impairment losses.

The initial historical cost includes the expenses directly attributable to the acquisition of the items of property, plant and equipment.

Subsequent costs are capitalised only when it is probable that the future economic benefits associated with the items will flow to the Group and the cost of the item can be determined reliably. As a general rule, all repairs and maintenance expenses are recognised in the income statement in the year in which they are incurred.

The depreciation of the assets is calculated using the straight-line method based on their estimated useful lives and the residual value of the assets. The estimated useful lives of the various asset categories are the following:

Classification/Items	Useful life
Industrial structures and buildings	25 - 50 years
Plant and machinery	5 - 10 years
Complex and general fixtures	12 - 17 years
Furniture and office equipment	3 - 10 years
Computer hardware	4 years
Vehicles	7 years
Other items of property, plant and equipment	7 - 10 years

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

If an asset's carrying amount is greater than its estimated recoverable amount, its value is immediately reduced to its recoverable amount.

Gains and losses on the sale of property, plant and equipment are determined by comparing the income obtained with the carrying amount and are recognised under "Other operating expenses" or "Other operating income" in the income statement. The work carried out by the Company on its assets 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 acquisition over the fair value of the Group's ownership interest in the identifiable net assets of the subsidiary or associate acquired at the date of acquisition. Goodwill relating to acquisitions of subsidiaries is recognised in intangible assets, while goodwill relating to acquisitions of associates is recognised in investments accounted for using the equity method. Goodwill is tested annually for impairment and is carried at cost less any accumulated impairment losses. Any gains or losses on the sale of an entity include the carrying amount of its goodwill.

Goodwill is assigned to cash-generating units (CGUs) for the purpose of recoverability assessments. Goodwill is allocated to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combinations in which the goodwill arose, identified in accordance with the operating segments.

The recoverable amount of a CGU is determined as the higher of its value in use or its fair value less costs to sell. These calculations use cash flow projections based on financial budgets approved by management that cover a period of five years. Cash flows for more than five years are extrapolated using the estimated growth rates.

Goodwill is reviewed for impairment on an annual basis or more frequently if events or changes in circumstances indicate a potential impairment loss.

Any impairment losses are recognised as an expense and are not subsequently reversed.

Computer software

Licences for computer software acquired are capitalised based on the costs incurred to acquire them and bring the specific software to use. These costs are amortised over their estimated useful lives (4 years).

The expenses related to software development or maintenance are recognised when they are incurred. The costs directly related to producing unique and identifiable computer software controlled by the Group that is likely to generate economic benefits exceeding the costs for more than one year, are recognised as intangible assets. These direct costs include the staff costs for the computer program developers and a suitable portion of general overheads. Software development costs recognised as assets are amortised over the software's estimated useful life (4 years).

Concessions

Concessions refer to the administrative authorisations granted by various municipal councils for the construction and subsequent operation of car parks and other assets for a period of time stipulated in each agreement. 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 concession assets become operational, the proceeds for operating the various concessions are recognised as revenue, the operating expenses are expensed currently, and the intangible assets are amortised on a straight-line basis over the term of the concession. The profitability of the project is reviewed at each year-end to assess whether there is any indication of impairment, i.e., an indication that the value of the assets may not be recoverable through the revenue generated while in use.

Throughout the term of the concession, the concession operator is required to repair and maintain the facilities and to keep them in proper working order. Repair and upkeep expenses are recognised in the income statement. No liabilities were recognised since the present value of the obligation is not significant.

Research and development expenditure

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

- It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- Management's intent is to complete the intangible asset and use or sell it;
- The intangible asset may be used or sold;
- The manner in which the intangible asset will generate probable future economic benefits can be demonstrated;
- Adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset; and
- The expenditure attributable to the intangible asset during its development can be measured reliably.

Other development costs are recognised as an expense when incurred. Development costs previously recognised as an expense are not capitalised in subsequent years.

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

2.7. Borrowing costs

The borrowing costs incurred in the construction of any qualifying asset are capitalised during the period of time necessary to prepare the asset for its intended use. Other borrowing costs are recognised in the income statement in the year in which they are incurred.

2.8. Impairment losses on non-financial assets

Assets with an indefinite useful life and goodwill are not subject to depreciation or amortisation but rather are tested annually for impairment. At each year-end, the Group reviews the assets subject to amortisation to verify if there is any event or change in circumstances that indicates that the carrying amount may not be recoverable.

An impairment loss is recognised when the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses on goodwill may not be reversed. For the purpose of assessing impairment, assets are grouped together at the lowest levels for which there are separately identifiable cash flows, i.e., in CGUs. Impairment losses are recognised in the income statement.

Previous impairment losses on non-financial assets, other than goodwill, are reviewed for possible reversal at each reporting date.

2.9. Financial assets

Classification

Financial assets are classified depending on the measurement category that is determined on the basis of the business model and the contractual cash flow characteristics, and are only reclassified when, and only when, there is a change in its business model for managing these assets.

The Group classifies its financial assets into the following categories, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, and financial assets at amortised cost.

The Group's business models are assessed as of the date of initial application, i.e., 1 January 2018, and the assessment is retrospectively carried out on the financial assets that were not derecognised prior to 1 January 2018. The assessment of whether the contractual cash flows are composed solely of principal and interest is based on the facts and circumstances at the time of initial recognition of the assets.

Acquisitions or disposals of investments are recognised on the trade date, i.e., the date on which the Group undertakes to acquire or sell the asset. Investments are recognised initially at fair value plus the transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are taken to the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards arising from the related ownership.

Measurement

Acquisitions or disposals of investments are recognised on the trade date, i.e., the date on which the Group undertakes to acquire or sell the asset. Investments are recognised initially at fair value plus the transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are taken to the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards arising from the related ownership.

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

The gains and losses on assets measured at fair value are recognised in profit or loss or in other comprehensive income. With regard to investments in equity instruments that are not held for trading, the Group has made an irrevocable election at initial recognition to recognise all equity investments at fair value through other comprehensive income.

Financial assets at amortised cost (Loans and receivables)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are generated when the Group supplies money, goods or services directly to a debtor with no intention of trading the receivable. They are considered to be current assets, except for those maturing within more than 12 months from the balance sheet date, which are classified as non-current assets.

In addition, deposits and guarantees provided to third parties are included in this category. Loans and receivables are subsequently recognised at their amortised cost in accordance with the effective interest rate method. Accounts receivable that do not explicitly accrue interest are measured at their nominal value when the effect of not discounting the cash flows is not significant. They are still subsequently measured, where applicable, at their nominal value.

Financial assets at fair value through other comprehensive income

The assets held for the collection of contractual cash flows and for the sale of financial assets, in which the cash flows of the assets represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Changes in the carrying amount are recognised through other comprehensive income, except for the recognition of impairment losses or gains, interest income, and exchange gains or losses that are recognised in profit or loss. Unrealised gains and losses that arise from changes in fair value are recognised in other comprehensive income. When these financial assets are sold or become impaired, the cumulative adjustments in fair value recognised in equity are included in the income statement as gains or losses.

The fair value of listed investments is based on the current purchase price. If the market for a financial asset is in active (and for unlisted securities), the Group establishes its fair value using valuation techniques that include the use of recent arm's length market transactions between willing and duly informed parties, references to other instruments that are substantially the same and the discounted cash flows analysis. If none of the techniques mentioned can be used to estimate fair value, the investments are recognised at acquisition cost less any impairment losses.

In the case of equity instruments included in this category, Group management has elected to present the gains and losses in the fair value of equity instruments in other comprehensive income. Gains and losses in fair value are not subsequently reclassified to profit or loss after the disposal of the investment. Impairment losses (and reversals of impairment losses) on equity instruments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

The dividends from these investments continue to be recognised in profit or loss when the Group has the right to receive payment.

Financial assets at fair value through profit or loss

Those assets that do not meet the requirements to be recognised at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss. Realised and unrealised gains and losses arising from changes in 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.

Impairment

The impairment model requires provisions for impairment to be recognised based on the expected loss model rather than only the incurred credit losses.

With regard to its customer accounts, accounts receivable and other assets, which relate mainly to customers of recognised solvency with which it has extensive experience, the Group applies the simplified approach, recognising the expected credit losses for the entire life of the assets.

With regard to trade receivables and contract assets, provided there is no significant financial component, the Group applies the simplified approach, which requires the allocation of a loss based on the expected loss model throughout the entire life of the asset at each reporting date. The Group's model considers internal information, such as customer balances, external factors such as credit assessments of customers and ratings from risk agencies, as well as the specific circumstances of customers, taking into consideration the information available on past events, current conditions and forward-looking elements.

Offsetting of financial instruments

Financial assets and liabilities are offset and presented as net in the balance sheet when there is a legally enforceable right to offset the recognised amounts and the Group intends either to settle on a net basis, or to 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 default, insolvency or bankruptcy on the part of the Company or the counterparty.

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 will mainly be recovered through a sale transaction rather than through continuing use, and if their sale is considered highly probable. They are measured at the lower of their carrying amount and their fair value less costs to sell, except for assets such as deferred tax assets, assets arising from the employee benefits, financial assets and investment property that are recognised at fair value, and contractual rights from insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the assets (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell of an asset (or disposal group), but not in excess of the cumulative impairment loss that had been previously recognised. A gain or loss not previously recognised by the date of the sale of a non-current asset (or disposal group) is recognised at the date of derecognition.

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 recognised.

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

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such line of business or area of operation, or is a subsidiary acquired exclusively with a view to resale. The profit or loss from discontinued operations is presented separately in the income statement.

2.11. Inventories

Inventories include the costs related to the submission of bids to be awarded works in Spain and abroad, as well as the costs of the parking spaces available for sale.

The costs associated with the bids are recognised as inventories when it is likely for certain that the contract will be secured or when it is no that these costs will be reimbursed for included in the revenue from the contract. These costs are taken to the consolidated income statement depending on the stage of completion of the related project.

The parking spaces available for sale are initially measured at acquisition cost and subsequently at the lower of cost and net realisable value.

2.12. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits in banks and other short-term highly liquid investments originally maturing within three months or less.

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

- Cash flows: inflows and outflows of cash and cash equivalents (Note 14).

- Operating activities: payments and collections from the Group's ordinary activities and other activities that are not investing or financing activities.

- Investing activities: payments and collections that arise from acquisitions and disposals of non-current assets.

- Financing activities: activities that result in changes in the size and composition of the equity and borrowings that are not operating activities.

2.13. Share capital

The share capital is represented in full by ordinary shares classified as equity.

The incremental costs directly attributable to the issue of new shares are recognised in equity as a deduction, net of the corresponding tax effect, from the income obtained.

When any Group company acquires shares of the Parent (treasury shares), the consideration paid, including any directly attributable incremental cost (net of income tax), is deducted from the equity attributable to the shareholders of the Company until their redemption, re-issue or disposal. When these shares are sold or are later re-issued, any proceeds received, net of any directly attributable incremental cost of the transaction and the corresponding income tax effects, are included in the equity attributable to the shareholders of the Company.

2.14. Grants

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

Government grants related to costs are deferred and are recognised in the income statement over the period required to match them with the costs that they are intended to cover.

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

The grants received for research and development projects are transferred to the income statement in accordance with the criteria for recognising research and development expenditure in the income statement.

2.15. Financial liabilities

Financial liabilities at amortised cost (Borrowings)

Borrowings are initially recognised at fair value, net of any transaction costs incurred. Borrowings are subsequently measured 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. The fees paid on the arrangement of loans are recognised as transaction costs for the loan to the extent that it is probable that a portion or all of the loan will be used. In these cases, the fees are deferred until the line of credit is used. If there is no evidence that all or a portion of the line of credit will likely be used, the fee is capitalised as an advance payment for liquidity services and is amortised over the period during which the line of credit is available.

Borrowings are removed from the balance sheet when the obligations specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of the financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss for the year as other finance income or costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

Financial liabilities at fair value through profit or loss

These are liabilities acquired for the purpose of being sold in the near term. Derivatives are classified in this category unless they are designated as hedging instruments (see Note 2.20). These financial liabilities are recognised, both initially and subsequently, at their fair value, and the changes that arise therein are recognised in the consolidated income statement for the year.

2.16. Current and deferred taxes

The tax expense for the year comprises current and deferred taxes. Taxes are recognised in the income statement, unless the tax relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where its subsidiaries and associates operate and generate taxable profit. Management periodically evaluates the positions taken in tax returns with regard to situations in which applicable tax legislation is subject to interpretation, and, if necessary, establishes provisions based on the amounts expected to be paid to the tax authorities.

Deferred taxes are calculated, in accordance with the balance sheet liability method, based on the temporary differences that arise between the tax bases of the assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred taxes are not recognised if they arise from the initial recognition of a liability or asset in a transaction other than a business combination, which at the time of the transaction affects neither accounting profit (loss) nor taxable profit (tax loss). Deferred taxes are determined by using the tax rates that have been enacted or substantially enacted by the balance sheet date and that are expected to be applied when the related deferred tax asset is realised or the deferred tax liability is settled.

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

Deferred taxes are recognised based on temporary differences that arise in investments in subsidiaries, associates and joint ventures, except for those cases in which the Group is able to control the date on which the temporary differences are reversed and it is likely that they will not be reversed in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset if, and only if, there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and deferred taxes liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend to settle future assets and current tax liabilities on a net basis.

2.17. Employee benefits

Termination benefits

Termination benefits are paid to employees as a result of the Group's decision to terminate their employment contract before the normal retirement date or when the employee agrees to accept voluntary redundancy in exchange for those benefits. The Group recognises these benefits when it is demonstrably committed to terminate the employment of current employees in accordance with a detailed formal plan that cannot be withdrawn, or to provide termination benefits as a result of an offer made to encourage voluntary termination. Termination benefits that will not be paid within 12 months of the reporting date are discounted to their present value.

Bonus plans

The Group recognises a provision when it is contractually required to do so.

2.18. Provisions

The Group recognises provisions when it has a present obligation (legal or constructive) as a result of past events, where an outlay of resources will likely be needed to settle the obligation and when the amount can be reliably estimated. No provisions are recognised for future operating losses, although provisions are recognised for engineering contracts expected to generate losses (see Note 2.19).

Provisions are recognised at the best estimate of the liability to be settled by the Group, taking into account the effects of exchange rate fluctuations, for those amounts denominated in foreign currency, the present value of the disbursements, if the effect is significant, that are expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time of value of money and the specific risks of the obligation.

2.19. Revenue recognition

Revenue includes the fair value of the considerations received or to be received for the sale of goods and services in the ordinary course of the Group's business activities. Revenue is presented net of value added tax, returns, rebates and discounts, and after having excluded sales within the Group. The Group recognises revenue when the amount thereof can be reliably measured, when it is highly probable that the future economic benefits will flow to the Company and when the specific conditions for each of the Group's activities are met, as detailed below. In relation to inventories, the Group recognises sales and profit or loss when ownership is transferred to the buyer. The amount of revenue cannot be reliably determined until all contingencies related to the sale have been resolved. The Group bases its estimates on past results, taking into account the type of customer, type of transaction and specific terms of each agreement.

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 of the actual service provided. The price payable by the end customer consists of the direct costs incurred, to which a fixed margin is applied for indirect costs and industrial profit.

Turnkey engineering contracts

When the outcome of a contract cannot be reliably estimated, the contract revenue is only recognised to the extent of the contract costs incurred that are likely to be recoverable.

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

The Group uses the percentage of completion method to calculate the amount to be recognised in a given accounting period. The percentage of completion is determined based on a financial assessment of the tasks effectively carried out as of the balance sheet date as a percentage of the total estimated tasks and costs for each contract.

The Group recognises an account receivable for the gross amount owed by customers for work performed under all contracts in progress for which the costs incurred plus the recognised profits (less recognised losses) exceed the amount of progress billings. Progress billings outstanding and withholdings are included in trade and other receivables.

The Group recognises a liability for the gross amount owed to customers for work performed under all contracts in progress for which the progress billings exceed the costs incurred plus the 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, in addition to being performed simultaneously or having part of the term of each contract overlap and being carried out in the same industrial area. In these cases, the Group treats them as a single contract.

At 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 separately.

Given the nature of the business activity, contracts are often modified while in progress due to changes in the scope of the work that needs to be carried out under the terms of the contract. A change may lead to an increase or a decrease in contract revenue. Changes are recognised as increases in the value of the contract when the customer approves the change in scope and the resulting price increase. If the scope of the work has been approved but its valuation is outstanding, the revenue to be recognised will be estimated, provided the revenue is highly likely not to undergo a significant reversal in the future.

Likewise, claims may arise in the performance of the contracts that the Group seeks to collect from the customer or another party as reimbursement for costs not included in the contract price. The grounds for such claims are related to and supported by the clauses of the contract or situations of force majeure. Claims are recognised as a variable consideration. Income from claims is measured either using the expected value method or the method of the most likely amount (in each case the method that best predicts the amount the Company expects to have the right to receive) and provided the revenue recognised is highly likely not to undergo a significant reversal in the future when the uncertainties associated with these claims are subsequently resolved. 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 their nature or the counterparty involved are also analysed, as well as the communications 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.

<u>Concession arrangements</u>

Revenue from concession-related activities is recognised as a function of services rendered at the contractually agreed prices.

<u>Dividend income</u>

Dividend income is recognised when the right to receive payment is established.

Interest income

Interest income is recognised using the effective interest rate method.

2.20. Derivative financial instruments and hedging transactions

The Group decided to apply the new general hedge accounting model of IFRS 9. This requires the Group to ensure that the hedge accounting relationships are in line with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assess the effectiveness of the hedge.

Foreign currency derivatives in force at 31 December 2017 were classified as cash flow hedges in accordance with IFRS 9. The Group's risk management strategies and documentation of hedges are in line with the requirements of IFRS 9 and these relationships are treated as continuous hedges.

Derivative financial instruments are initially recognised at fair value on the date on which the contract is signed and are subsequently adjusted to their fair value at each balance sheet date. The recognition of the gain or loss resulting from the changes in fair value in each period depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

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

The cumulative balance under equity is transferred 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 hedging transaction no longer meets the requirements to qualify for hedge accounting, any cumulative gains or losses recognised under equity until then will remain in equity and are recognised in the income statement when the expected transaction final takes place. However, if it is no longer probable that this transaction will take place, any cumulative gains or losses recognised under equity are immediately transferred to the income statement.

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

Under certain circumstances, the Group may also use non-derivative financial liabilities denominated in foreign currency to cover the foreign currency risk of the cash flow of its forecast transactions. The foreign currency translation difference of these hedging instruments is recognised directly in equity until the forecast transaction takes place, at which time they are reclassified to the consolidated statement of comprehensive income. Any ineffective gains or losses are recognised directly in the consolidated statement of comprehensive income.

Derivatives that do not qualify for hedge accounting

For derivative financial instruments not designated as hedging instruments or that do not qualify to be designated as such, any changes in fair value at each measurement date are recognised as finance income or costs in the income statement. Financial liabilities at fair value through profit or loss are considered to be included in this category.

2.21. Leases

Leases of property, plant and equipment in which the Group is the lessee and has substantially all the risks and rewards arising from ownership of the assets are classified as finance leases. Finance leases are recognised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the liability and the finance charge so as to produce a constant periodic rate of interest on the remaining balance of the liability. The payment obligation arising from the lease, net of finance charges, is recognised under non-court 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 in which the lessor substantially retains the risks and rewards arising from ownership of the asset are classified as operating leases. In operating leases where the Group is the 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 term of the lease.

2.22. Distribution of dividends

Dividend pay-outs to shareholders of the Parent are 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.

2.23. Environmental disclosures

An environmental activity is considered to be any activity whose main purpose is to prevent, reduce or repair environmental damage.

Expenses incurred in protecting and improving the environment are charged to profit or loss in the year in which they are incurred, regardless of when the resulting monetary or financial flow arises.

Provisions for probable or certain third-party liability, litigation in process and outstanding environmental indemnity payments or obligations of undetermined amount not covered by the insurance policies taken out are recorded when the liability or obligation giving rise to the indemnity or payment arises.

In view of the business activities carried on by the Group companies, the Group does not have any environmental expenses, assets, provisions or contingencies that might be material with regard to its equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

2.24 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.
- By the weighted average number of ordinary shares outstanding during the year, adjusted for any incentives in 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 income tax of interest and other finance costs associated with the dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3. Financial risk management

3.1. Financial risk factors

The Group's activities are exposed to a variety financial risks: market risk (including foreign currency risk, interest rate cash flow risk and price risk), credit risk and liquidity risk. The Group's global risk management programme focuses on the uncertainty of the financial markets and aims to minimise the potential adverse effects on the Group's financial returns. The Group uses derivative financial instruments to hedge certain risk exposure.

Risk management is carried out by the Group's Finance Department, Business Units and Corporate Treasury Department in accordance with policies approved by the Parent's Board of Directors and supervised by the Audit and Control Committee. This Department identifies, assesses and hedges financial risks in close cooperation with the Group's operating units.

a) Market risk

a.1) Currency risk

The Group operates in the international market and, therefore, is exposed to foreign currency risk on the transactions it performs in foreign currencies, particularly the US dollar (USD) and, to a lesser extent, currencies tied to the USD. There is residual exposure to suppliers operating in other currencies (mainly Japanese yen, Australian dollars, Canadian dollars, Turkish lira, Malaysian ringgit, Peruvian sol, Russian ruble and Kuwaiti dinar). Foreign currency risk arises mainly from future commercial transactions and recognised assets and liabilities.

In accordance with the hedging policy established, the Group companies use forward contracts, negotiated by the Group's Corporate Treasury Department, to hedge the foreign currency risk arising from future commercial transactions and recognised assets and liabilities. Foreign currency risk arises when the future commercial transactions and recognised assets and liabilities are denominated in a currency other than the Group's presentation currency. The Group's Treasury Department is responsible for managing the net position in each foreign currency using external foreign currency forward contracts (also taking into account the risks arising from currencies tied to the USD, where the hedge arranged protects the USD risk). In addition, the Group tries to hedge foreign currency risk via 'multicurrency' contracts with its customers, segregating the sale price in the various currencies from the foreseen expenses and preserving the projected margins in euros.

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. For each new project contracted with foreign currency risk, the percentage of 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 usually denominated in multiple currencies, albeit mainly USD and EUR. If at 31 December 2018 the euro had depreciated / appreciated against the US dollar by a hypothetical 10%, leaving all other variables constant, consolidated profit before tax for the year would have been EUR 9,103 thousand higher / lower (2017: EUR 26,281 thousand), mainly due to the gains / losses generated on the appreciation / depreciation of positions in US dollars.

Meanwhile, if the euro had depreciated / appreciated against the US dollar by a hypothetical 10%, equity would have been EUR 57,592 thousand higher / lower in the year ended 31 December 2018 (2017: EUR 34,228 thousand); these amounts were calculated based on the changes in profits outlined in the paragraph above and the estimated changes in value of the hedging derivatives recognised in the hedging reserve in equity (all before considering the related tax effect).

Accordingly, the Group has various investments in foreign operations, the net assets of which are exposed to foreign currency risk. In general, the Group's policy is to finance its foreign operations with borrowings denominated in the functional currency of that country, so that the risk only affects the portion corresponding to the equity investment. The table below shows the balances of the principal exposures in foreign currency as a result of equity investments in foreign operations:

	2018	2017
Bolivian Peso	2,670	4,171
Saudi Riyal	29,592	49,387
Turkish Lira	36,006	107,558
Peruvian Sol	21,782	94,978

In the particular case of Turkey, and given that we are carrying out a project with shareholders, it was exceptionally decided, in view of the high interest rates in the local currency market, to finance temporary liquidity needs for the project in the contractual currency (strong currency), a currency other than the functional currency. This may generate an exchange difference that could have an impact on the current investment if the local currency depreciates significantly.

a.2) Price risk

The Group is exposed to price risk with regard to equity securities. Exposure to this risk is limited due to the fact that the investments held by the Group and classified in the consolidated balance sheet at fair value through profit or loss relate mainly to short-term fixed-income investment funds (see Note 13).

The Group is exposed to commodity price risk, basically tied to metals and oil, to the extent that they affect the price of the equipment supplied and materials used in the construction projects. As a general rule, 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 basically 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 consists of using contracting models that allow a portion of the price to be allocated to cover possible cost deviations.

a.3) Interest rate risk in cash flows

The Group generally endeavours to self-finance its projects, establishing invoicing and collection milestones with customers that cover the payment deadlines undertaken with suppliers. The Group's net cash position (cash and cash equivalents less borrowings) is therefore positive. However, the Group maintains credit lines to cover any cash flow needs for the projects. The majority of these credit lines are negotiated at variable interest rates tied to EURIBOR. In the current situation where the EURIBOR is negative, the variable interest rates established in the credit lines are considered the best policy to minimise the impact of interest rate risk. In addition, and as part of the policy for controlling interest rate risk and the impact that interest rate fluctuations may have on the income statement, 42% of the syndicated credit line, maturing in 2021, has been arranged at a fixed rate.

The exposure to variable interest rate risk at each balance sheet date is the following:

	2018			2017		
	Tied to Euribor	**Other reference rates**	**Total**	**Tied to Euribor**	**Other reference rates**	**Total**
Borrowings	(405,023)	(82,870)	(487,893)	(376,298)	(8,136)	(384,434)
Interest-earning cash and cash equivalents	146,119	534,661	680,780	130,357	439,582	569,939
	(258,904)	**451,791**	**192,887**	**(245,941)**	**431,446**	**185,505**

Based on the sensitivity analyses performed on cash and cash equivalents, the impact on profit of a 25-basis point fluctuation up or down in interest rates would imply, at most, an increase / decrease of EUR 1,702 thousand at 31 December 2018 (2017: EUR 1,593 thousand).

b) Credit risk

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

- Assets arising from derivative financial instruments (see Note 9) and sundry balances, including cash and cash equivalents (see Note 14).
- Balances related to trade and other receivables (see Note 10).

Derivative financial instruments and transactions with financial institutions included as cash and cash equivalents are arranged or carried out with financial institutions of renowned prestige.

In relation to trade and other receivables, it is worth mentioning that, due to the nature of the business, there is a high concentration based on the Group's most significant projects. These counterparties are generally state-owned or multinational oil companies.

At 31 December 2018, a total of ten customers represented 85% (2017: 81%) of the total recognised under "Trade receivables" (including trade and other receivables), and are tied to transactions with the entities. Therefore, the Group considers credit risk to be very low. In addition to the credit analyses 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 above) are monitored at the individual level.

The balance of trade receivables past due but not impaired at 31 December 2018 is EUR 182,471 thousand (2017: EUR 233,668 thousand), and primarily correspond to amounts past due by less than six months.

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

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

c) Liquidity risk

Prudent management of liquidity risk entails the maintenance of sufficient cash and marketable securities, availability of financing through a sufficient level of committed credit facilities and the capacity to settle market positions.

As a result 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 financing facilities.

Management monitors the Group's projected liquidity reserve on the basis of expected cash flows. As mentioned above, the strategy of self-financing projects results in positive net cash position. In addition, the Group has credit lines that offer an additional liquidity buffer. Therefore, the Group's liquidity risk is considered to be appropriately managed. The table below provides a breakdown of the significant liquidity information:

	2018	**2017**
Borrowings (Note 20)	(487,893)	(384,434)
Financial assets at fair value through profit or loss (FAFV) (Note 13)	64,817	67,362
Cash and cash equivalents (Note 14)	680,780	569,939
Net cash position and FAFV	257,704	252,867
Undrawn credit lines (Note 20)	841,937	888,000
Total liquidity reserves	**1,099,641**	**1,140,867**

The two syndicated lines of credit signed by TR and in force as of the date of authorisation for issue of these financial statements, amounting to a total of EUR 700 million, requires, among other obligations, that the consolidated net financial debt/EBITDA ratio is less than or equal to 3. These requirements were met as of the date of authorisation for issue of these consolidated financial statements.

The table below shows an analysis of the Group's financial liabilities that will be settled net, grouped by maturities, in accordance with the remaining periods at the balance sheet date until the contractual maturity date. The amounts shown in the table correspond to the balances resulting from applying the amortised cost method (carrying amounts), which basically coincide with the undiscounted expected cash flows. The balances payable within 12 months are equivalent to their carrying amounts, given that the discount effect is not significant.

	Within one year	From 1 to 2 years	From 3 to 5 years	More than 5 years
At 31 December 2018				
Borrowings (Note 20)	99,402	213,565	163,710	11,216
Derivative financial instruments (Note 9)	55,044	1,242	-	-
Trade and other payables (Note 19)	2,654,069	356	-	-
Total	**2,808,515**	**215,163**	**163,710**	**11,216**
At 31 December 2017				
Borrowings (Note 20)	292,219	92,215	-	-
Derivative financial instruments (Note 9)	28,423	2,489	-	-
Trade and other payables (Note 19)	2,796,013	288	-	-
Total	**3,116,655**	**94,992**	**-**	**-**

3.2. Capital risk management

The Group's objectives in relation to managing capital are based on guaranteeing its commercial activity, offering our customers and potential customers sufficient capital to guarantee our ability to handle their projects.

In order to maintain and adjust the capital structure, the Group may adjust the amount of dividends payable to shareholders, return capital to shareholders, redeem treasury shares, or take other actions considered appropriate.

The Group monitors capital on the basis of the leverage ratios set out below. The leverage ratio is calculated dividing debt by equity. Debt is calculated as total borrowings. Equity is the amount shown in the consolidated financial statements. The ratio obtained from dividing the net cash position and FAFV by equity is also calculated.

	2018	**2017**
Borrowings (Note 20)	(487,893)	(384,434)
Net cash position and FAFV	257,704	252,867
Equity	358,587	463,304
% Borrowings / Equity	136.06%	82.98%
% Net cash position and FAFV / Equity	71.87%	54.58%

3.3. Fair value

The table below includes an analysis of the financial instruments, classified by valuation method, that are measured at fair value.

The various levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than prices quoted included within 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 measured at fair value at 31 December 2018 and 2017.

At 31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total balance**
Assets				
Financial assets at fair value through other comprehensive income	-	264	-	264
Financial assets at fair value through profit or loss (Note 13)	64,817	-	-	64,817
Hedging derivatives (Note 9)	-	9,231	-	9,231
Total assets	**64,817**	**9,495**	**-**	**74,311**
Liabilities				
Hedging derivatives (Note 9)	-	56,286	-	56,286
Total liabilities	**-**	**56,286**	**-**	**56,286**

At 31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total balance**
Assets				
Financial assets at fair value through other comprehensive income	-	1,016	-	1,016
Financial assets at fair value through profit or loss (Note 13)	67,362	-	-	67,362
Hedging derivatives (Note 9)	-	38,148	-	38,148
Total assets	**67,362**	**39,164**	**-**	**106,526**

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

a) Level 1 financial instruments

The fair value of the financial instruments traded in active markets is based on the market prices at the reporting date. A market is considered to be active if quoted prices are readily and regularly available from a stock 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 listed on an active market (e.g. OTC derivatives) is determined 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.
- The fair value of the interest rate swaps is calculated as the present value of the estimated future cash flows based on estimated interest rate curves.
- The present value of foreign currency futures is determined using the future exchange rates on the balance sheet date, discounted to their present value.
- Other techniques, such as discounted cash flow analysis, are used to determine the fair value of the remaining financial instruments.

There were no transfers between levels in 2018 or 2017.

With regard to financial instruments, credit risk must be included in measurements at fair value, whereby credit risk is understood to be the credit risk of the counterparty and the Group's own credit risk, where applicable.

Due to the nature of the Group's portfolio, the application of credit risk mainly affects the portfolio of financial derivatives designated as cash flow hedges, given that they 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 the determination of the credit risk to be applied, i.e., the Company's own credit risk or that of the counterparty, is not intuitive, but rather depends on market conditions at any given time and must therefore be quantified using measurement models.

The derivatives arranged by the Group relate mainly to currency futures and commodities 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.

Commodity 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 that are 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 commodity forwards will depend on future settlements. If the settlement is favourable for the Group, a credit spread is incorporated for the counterparty to quantify the probability of default upon 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 volatility of the underlying asset and applying the resulting credit spread to each simulation.

4. Accounting estimates and judgements

When preparing the consolidated financial statements in accordance with EU-IFRSs, management must make estimates and assumptions that may affect the accounting policies adopted and the amount of assets, liabilities, income and expenses and the breakdowns related thereto. Estimates and assumptions are based, among other aspects, on historical experience or other events considered reasonable in view of the facts and circumstances analysed. The resulting accounting estimates may differ significantly from the corresponding outcomes in real life. The main estimates are the following:

Income tax and deferred tax assets

The Group is subject to income tax in several jurisdictions. A significant degree of judgement is required to determine the provision for income tax at a global level. There are several transactions and calculations for which the final determination of the tax is uncertain. The Group recognises liabilities for potential tax claims based on the estimate of whether or not additional taxes will be necessary. If the final amount of taxes differs from what was initially recorded, any such differences will affect the income tax and the provisions for deferred taxes for the year in which said determination was made.

As disclosed in Note 27, the effective tax rate for 2018 is 35.18% (29.8% in 2017).

The Group also assesses the recoverability of deferred tax assets based on the existence of future taxable profit against which these assets may be utilised.

Useful lives of property, plant and equipment and intangible assets

Group management determines the estimated useful lives and the related depreciation and amortisation charges for its property, plant and equipment and intangible assets. The useful lives of its non-current assets are estimated based on the period over which the assets will generate economic benefits.

At each reporting date, the Group reviews the useful lives of its assets and if the estimates differ from those previously made, the effect of the change is recognised prospectively as from the year in which the change is made. Historically, there were no material adjustments made in relation to the useful lives of the assets.

Accounts receivable

The Group makes estimates relating to the collectability of trade receivables for projects affected by ongoing disputes or litigation in progress as a result of not accepting the work carried out or failure to comply with contractual clauses related to the performance of the assets delivered to customers. In addition and in compliance with IFRS 9, the Group estimates impairment based on expected loss.

Provisions

Provisions are recognised when it is probable that a present obligation, resulting from past events, will require an outflow of resources and when the amount of the obligation may be reliably estimated. Significant estimates are required to fulfil the applicable accounting requirements. Group management makes 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. The percentage of completion is determined based on a financial assessment of the tasks effectively carried out as of the balance sheet date as a percentage of the total estimated costs for each contract. This revenue recognition method is applied only when the outcome of the contract can be reliably estimated and it is likely that the contract will generate 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 the contract will exceed contract revenue, the loss is immediately recognised as an expense. When applying the percentage-of-completion method, the Group analyses various factors that may give rise to changes in the estimated costs of the projects with regard to that plant and, based on this analysis, 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 applying the percentage-of-completion method or whether it is necessary to re-estimate the expected margin on the project. Revenue from claims made by the Group against customers or from changes in the scope of the project are included in contract revenue when it is highly probable that the Group will receive an inflow of funds (see Note 2.19).

Fair value of unquoted financial instruments

The fair value of those financial instruments that are not traded on an active market (e.g. OTC derivatives) is determined using valuation techniques. The Group exercises judgement in selecting a range of methods and making assumptions that are based mainly on prevailing market conditions at the reporting date. The Group used the discounted cash flow analysis for various exchange rate contracts that are not traded on an active market.

Warranty claims

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

Impairment of concession assets

The estimated recoverable amount of the concessions operated by the Group was determined by evaluating the different external and internal circumstances that could give rise to indications of impairment, such as the market value of the asset, offers received for the assets, changes in business plans, changes in management or in the environment (legal, fiscal, economic, etc.), interest rate fluctuations, obsolescence or physical impairment.

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

5. Segment reporting

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 any risks and rewards that may arise from its business activities 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 is based on information reviewed by the Board of Directors.

The oil and gas segment focuses on providing engineering, procurement and construction 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 also 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, procurement 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 plants, fuel cells, solid waste and biomass technology. The Group also supplies turnkey plants and occasionally performs plant operation and maintenance (O&M) services.

In the infrastructure and industry segment, the Group carries out projects 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. In addition, the Group manages financing activities and the effect of income tax. Consequently, finance income and costs and income tax, as well as borrowings and tax payables, have not been allocated by segment. Additionally, non-current 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 various operating segments in the years presented.

	Oil and Gas		Power		Infrastructure and other		Unallocated		GROUP	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Segment reporting										
Revenue	3,716,994	4,281,516	578,133	684,340	101,201	102,087	-	-	**4,396,328**	**5,067,944**
Profit from operations	133,680	167,509	18,913	37,952	(9,963)	(4,187)	(100,492)	(100,878)	**42,139**	**100,396**
Net financial profit (loss) (Note 28)							(18,837)	(6,920)	**(18,837)**	**(6,920)**
Share in profit/(loss) of associates	(13)	10	454	765	(1,453)	(3,063)	-	-	**(1,011)**	**(2,288)**
Profit before tax	-	-	-	-	-	-	-	-	**22,290**	**91,188**
Income tax	-	-	-	-	-	-	(7,843)	(27,173)	**(7,843)**	**(27,173)**
Profit from continuing operations	-	-	-	-	-	-	-	-	**14,447**	**64,015**
Loss from discontinued operations									**-**	**(5,049)**
Profit for the year									**14,447**	**58,966**
Segment assets and liabilities										
Segment assets and liabilities	2,829,384	3,028,068	234,602	249,848	177,902	194,595	470,463	399,162	**3,712,351**	**3,871,672**
Associates	3,563	3,576	7,053	7,152	1,918	3,371	-	-	**12,534**	**14,100**
Total assets	**2,832,947**	**3,031,644**	**241,655**	**257,000**	**179,821**	**197,966**	**470,463**	**399,162**	**3,724,885**	**3,885,772**
Liabilities	2,581,728	2,469,191	259,788	327,171	63,740	50,683	461,042	575,423	**3,366,298**	**3,422,468**
Investments in non-current assets (Notes 6 & 7)	1,742	3,435	2	57	945	571	3,356	9,819	**6,045**	**13,882**
Other segment information										
Depreciation of property, plant and equipment (Note 6)	-	-	-	-	-	-	(13,949)	(19,460)	**(13,949)**	**(19,460)**
Amortisation of intangible assets (Note 7)	-	-	-	-	-	-	(4,659)	(2,024)	**(4,659)**	**(2,024)**
Impairment losses on trade receivables (Note 10)	-	-	-	-	-	-	(1,145)	(497)	**(1,145)**	**(497)**

Third-party customer revenue is allocated based on the country in which the customer is located. The breakdown is as follows:

	2018	2017
Spain	107,888	71,308
Middle East	3,179,962	3,214,003
America	512,626	648,776
Asia	117,039	255,618
Europe	301,047	552,643
Mediterranean	177,766	325,596
	4,396,328	**5,067,944**

Income from the Middle East relates mainly 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 this income is from operations in Malaysia and Bangladesh; in Europe the operations were focused primarily in Russia, Belgium, Portugal, Norway, the UK, Finland and Poland; and in the Mediterranean operations were focused basically in Turkey and Algeria, among other countries.

The revenue generated by the Group's top five customers accounted for 81% of total revenue in 2018 (2017: 72%). Revenue generation by customers that individually accounted for over 10% of total consolidated revenue in 2018 amounted to EUR 2,805 million (2017: EUR 2,702 million).

All assets and liabilities allocated to the operating segments are measured using the same criteria as those described in Note 2. These assets and liabilities are allocated by region based on their physical location. The detail of the assets and investments in non-current assets is as follows:

	ASSETS		Investments in non-current assets	
	2018	2017	2018	2017
Spain	344,464	343,343	940	590
Middle East	2,136,895	2,289,084	1,386	1,433
America	245,882	414,706	231	1,521
Asia	284,450	169,100	55	82
Europe	218,869	239,136	8	55
Mediterranean	169,593	179,762	69	383
TOTAL	**3,400,153**	**3,635,131**	**2,689**	**4,063**
Associates	12,534	14,100	-	-
Unallocated	312,198	236,543	3,356	9,819
	3,724,885	**3,885,773**	**6,045**	**13,882**

The reconciliation of the assets and liabilities of the reportable segments to total assets and liabilities is provided as follows:

	2018	**2017**		**2018**	**2017**
Segment assets	3,254,423	3,486,610	Segment liabilities	2,905,256	2,847,045
Unallocated			Unallocated		
Non-current assets	346,756	237,362	Non-current liabilities	323,758	94,907
Current assets	123,707	161,802	Provisions	41,492	38,607
			Current liabilities	95,793	441,909
Total on-balance-sheet assets	**3,724,885**	**3,885,773**	**Total on-balance-sheet liabilities**	**3,366,298**	**3,422,469**

6. Property, plant and equipment

The detail of "Property, plant and equipment" and of the changes therein is as follows:

Cost	**Land and buildings**	**Plant and machinery**	**Furniture and equipment**	**PPE under construction**	**Other items of property, plant and equipment**	**Total**
Balances at 1 January 2017	**3,746**	**57,473**	**75,721**	**2,537**	**17,109**	**156,586**
Additions	14	6,017	6,497	-	188	12,716
Decreases	-	(3,206)	(9,795)	-	(247)	(13,249)
Transfers	-	97	10,986	-	(11,083)	-
Translation differences	(207)	58	(4,484)	-	(353)	(4,986)
Balance at 31 December 2017	**3,553**	**60,439**	**78,924**	**2,537**	**5,614**	**151,067**
Increases	-	870	2,517	-	560	3,947
Decreases	-	(401)	(24,422)	-	(182)	(25,005)
Transfers	-	219	821	-	(9)	1,031
Translation differences	(230)	(129)	386	-	50	77
Balances at 31 December 2018	**3,323**	**60,998**	**58,226**	**2,537**	**6,033**	**131,117**
Accumulated depreciation and impairment losses	**Land and buildings**	**Plant and machinery**	**Furniture and equipment**	**PPE under construction**	**Other items of property, plant and equipment**	**Total**
Balances at 1 January 2017	**1,106**	**35,212**	**48,400**	**2,537**	**6,461**	**93,716**
Additions	239	14,222	4,594	-	404	19,460
Decreases	-	(411)	(2,763)	-	(192)	(3,366)
Transfers	-	405	2,517	-	(2,922)	-
Translation differences	(62)	(332)	(2,298)	-	(262)	(2,954)
Balance at 31 December 2017	**1,284**	**49,096**	**50,450**	**2,537**	**3,489**	**106,855**
Additions	140	8,782	4,321		706	13,949
Decreases	-	(401)	(24,381)		(91)	(24,873)
Transfers	-	(3,819)	4,049		186	416
Translation differences	(88)	(106)	393		13	212
Balances at 31 December 2018	**1,336**	**53,552**	**34,832**	**2,537**	**4,303**	**96,559**
Net balance at 1 January 2017	**2,640**	**22,261**	**27,321**	**-**	**10,648**	**62,870**
Net balance at 31 December 2017	**2,270**	**11,343**	**28,474**	**-**	**2,125**	**44,212**
Net balance at 31 December 2018	**1,988**	**7,446**	**23,394**	**-**	**1,730**	**34,558**

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

The decreases under "Furniture and equipment" relate mainly to the derecognition of fully depreciated of items that were no longer in use.

At 31 December 2018, the Group had investments in property, plant and equipment abroad for a total cost of EUR 46,627 thousand (2017: EUR 53,739 thousand) and accumulated depreciation of EUR 36,049 thousand (2017: EUR 38,242 thousand).

The Group takes out all insurance policies it considers necessary to cover any potential risks that might affect its property, plant and equipment.

7. Goodwill and other intangible assets

The detail of "Intangible assets" and of the changes therein is as follows:

Cost	**Administrative concessions**	**Computer software and other intangible assets**	**Subtotal**	**Goodwill**	**Total**
Balances at 1 January 2017	**891**	**21,594**	**22,485**	**1,242**	**23,727**
Increases	-	1,166	1,166	-	1,166
Decreases	-	(4)	(4)	-	(4)
Transfers	-	-	-	-	-
Translation differences	3	(170)	(167)	-	(167)
Balance at 31 December 2017	**894**	**22,586**	**23,480**	**1,242**	**24,722**
Increases	-	2,098	2,098	-	2,098
Decreases	-	(5,427)	(5,427)	-	(5,427)
Transfers	73,467		73,467	-	73,467
Translation differences	-	4	4	-	4
Balances at 31 December 2018	**74,361**	**19,261**	**93,622**	**1,242**	**94,864**

Accumulated depreciation and impairment losses	**Administrative concessions**	**Computer software and other intangible assets**	**Subtotal**	**Goodwill**	**Total**
Balances at 1 January 2017	**305**	**16,635**	**16,940**	**-**	**16,0**
Increases	43	2,024	2,067	-	2,067
Decreases	-	(4)	(4)	-	(4)
Transfers	-	-	-	-	-
Translation differences	-	(131)	(131)	-	(131)
Balance at 31 December 2017	**348**	**18,524**	**18,871**	**-**	**18,871**
Increases	2,912	1,747	4,659	-	**4,659**
Decreases	-	(4,095)	(4,095)	-	**(4,095)**
Transfers	21,814	-	21,814	-	**21,814**
Reversal of impairment	(2,967)	-	(2,967)	-	**(2,967)**
Translation differences	-	4	4	-	**4**
Balances at 31 December 2018	**22,377**	**16,180**	**38,556**	**-**	**38,556**
Net balance at 1 January 2017	**586**	**4,959**	**5,545**	**1,242**	**6,787**
Net balance at 31 December 2017	**546**	**4,062**	**4,609**	**1,242**	**5,851**
Net balance at 31 December 2018	**51,984**	**3,081**	**55,066**	**1,242**	**56,308**

Research and development expenditure charged directly to the income statement during the year amounted to EUR 3,109 thousand (2017: EUR 3,088 thousand).

"Computer software" includes the title to and the right to use computer programs acquired from third parties. Computer software does not include the amounts related to the internal development of computer programs. The main additions during the year relate to the acquisition of management software licences.

The transfers that took place during the year are due mainly to the reclassification of concession assets classified in the previous year under "Assets classified as held for sale" (see the comments in the "Concessions" section).

No finance costs were capitalised in 2018 or 2017.

Goodwill impairment testing

As set out in Note 2.6, Técnicas Reunidas has implemented a procedure whereby its goodwill is tested at year-end for potential impairment. Goodwill is impaired when the carrying amount of the cash-generating unit to which the asset belongs is less than its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use, which is taken to be the present value of the estimated future cash flows. Goodwill is assigned to the cash-generating unit (CGU) identified as Eurocontrol, S.A., a Group company of which 80% is indirectly owned. Impairment tests were performed at 31 December 2018 and 31 December 2017 and no impairment losses were recognised.

Administrative concessions

In the second half of 2018, the negotiations that were being carried out for the sale of the concessions of the sports complex in Alcobendas and the sports complex, car park and public spaces at the La Viña Shopping Centre in San Sebastián de los Reyes were concluded, and the Group's managing bodies therefore decided to reclassify the assets related to these concessions to intangible assets (see Note 2.1).

This heading also includes the concessions for the operation of the Huercal-Overa underground car park (Almería) and the underground car park in Alcobendas. The most relevant aspects regarding these concession arrangements for public services are as follows:

	Concession	Term	Remuneration	Redemption
1	Alcobendas sports complex	50 years	User charges	At end of concession term
2	Sports complex, car park and public spaces at the La Viña Shopping Centre in San Sebastián de los Reyes	50 years	User charges	Period may be extended up to 60 years upon approval by the Municipal Council
3	Underground car park at Huercal - Overa (Almeria)	30 years	User charges	Subject to successive term extensions
4	Alcobendas underground car park	75 years	User charges	At end of concession term

Concession assets are financed by borrowings amounting to EUR 18,604 thousand (2017: EUR 21,546 thousand)

Operating income from operating these concessions amounted to EUR 6,278 thousand in 2018 (2017: EUR 6,430 thousand).

8. Investments in associates

The detail of and changes in investments in associates is as follows:

	2018	2017
Beginning balance	**13,386**	**13,128**
Additions	-	3,182
Disposals	-	(633)
Changes in the scope of consolidation	353	(3)
Share of profit/(loss)	(1,011)	(2,288)
Ending balance	**12,728**	**13,386**

The amount of this heading includes the interest in the equity of associates (over which it does not have control). At 31 December 2018, it related mainly to the equity of the Minatrico S. de. R.L. de C.V. and Empresarios Agrupados Internacional, S.A.

The reporting date of the financial statements of all associates coincides with the reporting date of the Parent's financial statements. The Group's interest in its main associates, all of which are unlisted, is as follows:

Name	Country of incorporation	Assets	Liabilities	Income	Profit/(loss)	% ownership interest
2018						
Empresarios Agrupados Internacional, S.A.	Spain	40,436	24,784	28,727	1,057	43.00%
Ibérica del Espacio, S.A.	Spain	32,664	28,670	6,149	(2,217)	50.00%
Empresarios Agrupados, A.I.E.	Spain	4,233	3,483	15,123	-	43.00%
Máster S.A de Ingeniería y Arquitectura	Spain	6,310	6,506	2,654	(859)	40.00%
Ebramex S. de R.L. de C.V.	Mexico	193	11,341	1,711	431	33.33%
Minatrico S. de R.L. de C.V.	Mexico	11,857	360	1,197	(469)	33.33%

Name	Country of incorporation	Assets	Liabilities	Income	Profit/(loss)	% ownership interest
2017						
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%
Máster 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%

This balance relates to minor investments in companies that are not listed on any active market and over which the Group does not have control. 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 provisions for impairment losses were recognised on available-for-sale financial assets in 2018 or 2017. There were no significant changes in 2018 or 2017.

9. Financial instruments

9.1.a. Financial instruments by category

The detail, by nature and measurement category, of the financial assets (excluding trade and other receivables and cash and cash equivalents) and financial liabilities (excluding trade payables) for the years ended 31 December 2018 and 2017, is as follows:

				At 31 December 2018
Financial assets:	**Financial assets at fair value through profit or loss (Note 13)**	**Financial assets through other comprehensive income**	**Amortised cost**	**Hedging derivatives (Note 9.1.b)**
Nature / Category				
Derivatives (Note 9.1.b)	-	-	-	129
Accounts receivable and other financial assets	-	264	91,613	-
Long-term/non-current	**-**	**264**	**91,613**	**129**
Derivatives (Note 9.1.b)	-	-	-	9,102
Accounts receivable and other financial assets	64,817	-	10,564	-
Short-term/current	**64,817**	**-**	**10,564**	**9,102**
Total financial assets	**64,817**	**264**	**102,177**	**9,231**

				At 31 December 2017
Financial assets:	**Financial assets at fair value through profit or loss (Note 13)**	**Financial assets through other comprehensive income**	**Amortised cost**	**Hedging derivatives (Note 9.1.b)**
Nature / Category				
Derivatives (Note 9.1.b)	-	-	-	361
Accounts receivable and other financial assets	-	1,016	17,406	-
Long-term/non-current	**-**	**1,016**	**17,406**	**361**
Derivatives (Note 9.1.b)	-	-	-	37,787
Accounts receivable and other financial assets	67,362	-	16,484	-
Short-term/current	**67,362**	**-**	**16,484**	**37,787**
Total financial assets	**67,362**	**1,016**	**33,890**	**38,148**

	At 31 December 2018		At 31 December 2017	
Financial liabilities	**Accounts payable (amortised cost)**	**Hedging derivatives (Note 9.1.b)**	**Accounts payable (amortised cost)**	**Hedging derivatives (Note 9.1.b)**
Nature / Category				
Borrowings (Note 20)	388,491	-	92,215	-
Derivatives (9.1.b)	**-**	1,242	**-**	2,489
Other accounts payable	398	-	330	-
Non-current payables/Non-current financial liabilities	**388,889**	**1,242**	**92,545**	**2,489**
Borrowings (Note 20)	99,402	-	292,219	-
Derivatives (9.1.b)	-	55,044	-	28,423
Other accounts payable	7,733	-	36,329	-
Current payables/Current financial liabilities	**107,135**	**55,044**	**328,548**	**28,423**
Total financial liabilities	**496,024**	**56,286**	**421,093**	**30,912**

In relation to trade and other receivables, a high portion of these balances relate to transactions with private sector customers, and a very significant portion of these balances related to national and international companies with a high credit rating that do not have a history of default. The global position of trade and other receivables is monitored on an ongoing basis, while the most significant exposures are monitored at an individual level and, therefore, the Group considers credit risk to be very low.

The changes in other financial assets through comprehensive income were as follows:

	2018
Beginning balance	**1,016**
Additions	7,787
Disposals	(2,145)
Changes in the fair value of financial instruments	(6,394)
Ending balance	**264**

Derivative financial instruments

The detail of derivative financial instruments at the end of 2018 and 2017 is as follows:

	2018		2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Foreign currency forward contracts - cash flow hedges	9,231	51,938	38,148	29,938
Commodity forward contracts	-	4,348	-	974
Total	**9,231**	**56,286**	**38,148**	**30,912**
Non-current portion	129	1,242	361	2,489
Current portion	9,102	55,044	37,787	28,423

The derivative financial instruments arranged by the Group relate mainly to the foreign currency forwards to cover highly probable future cash flows.

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

The detail of the maturities by year of the notional amounts of the contracts in force at 31 December 2018 and 2017 is as follows:

Type of instrument	Fair value (thousands of euros) 2018	Currency	Notional maturities (thousands) 2019	2020	2021	Total
Foreign currency forward contracts						
						-
Kuwaiti dinar / Euro	27	KWD	340	-	-	340
US dollar / Euro	7,513	USD	29,150	80	-	29,230
Polish zloty / Euro	6	PLN	13,152	-	-	13,152
Canadian dollar / Euro	206	CAD	25,000	-	-	25,000
US dollar / Mexican peso	1,456	MXN	530,410	-	-	530,410
British pound / Euro	23	GBP	1,800	-	-	1,800
Assets	**9,231**					

Type of instrument	Fair value (thousands of euros) 2018	Currency	Notional maturities (thousands) 2019	2020	2021	Total
Foreign currency forward contracts						
Kuwaiti dinar / Euro	425	KWD	23,600	-	-	23,600
US dollar / Swiss franc	363	USD	39,483	-	-	39,483
US dollar / Euro	48,946	USD	521,120	197,188	-	718,308
British pound / Euro	607	GBP	43,200	-	-	43,200
Canadian dollar / Euro	747	CAD	31,500	-	-	31,500
US dollar / Japanese yen	535	USD	4,938	-	-	4,938
Polish zloty / Euro	17	PLN	25,956	-	-	25,956
US dollar / Mexican peso	141	MXN	50,000	-	-	50,000
US dollar / Norwegian krone	157	USD	1,591	-	-	1,591
Commodities	4,348					
Liabilities	**56,286**					
Net balances	**(47,055)**					

Type of instrument	Fair value (thousands of euros) 2017 Balance	Currency	Notional maturities (thousands) 2018	2019	2020	Total
Foreign currency forward contracts						
US dollar / Swiss franc	294	CHF	5,700	13,300	-	19,000
Kuwaiti dinar / Euro	765	KWD	56,889	-	-	56,889
Japanese yen / Euro	247	JPY	771,000	-	-	771,000
US dollar / Euro	36,576	USD	1,170,075	-	-	1,170,075
Kuwaiti dinar / Euro	103	KWD	-	340	-	340
Polish zloty / Euro	3	PLN	2,135	-	-	2,135
US dollar / British pound	43	USD	2,120	-	-	2,120
US dollar / Japanese yen	59	USD	2,599	-	-	2,599
US dollar / Mexican peso	56	MXN	-	530,410	-	530,410
Norwegian krone / Euro	2	NOK	17,000	-	-	17,000
Assets	**38,148**					

Type of instrument	Fair value (thousands of euros) Balance at 2017	Currency	Notional maturities (thousands) 2018	2019	2020	Total
Foreign currency forward contracts						
Kuwaiti dinar / Euro	2,595	KWD	950	8,700	-	9,650
Japanese yen / Euro	1,117	JPY	830,000	-	-	830,000
Canadian dollar / Euro	88	CAD	39,830	-	-	39,830
British pound / Euro	194	GBP	13,850	-	-	13,850
Kuwaiti dinar / Euro	710	USD	56,879	-	-	56,879
US dollar / British pound	173	USD	3,857	-	-	3,857
US dollar / Euro	23,158	USD	228,075	-	-	228,075
US dollar / Japanese yen	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 / Norwegian krone	93	NOK	8,186	-	-	8,186
Commodities	974	USD/EUR	-	29,377	-	29,377
Liabilities	**30,912**					
Net balances	**7,236**					

The detail of the maturities by year of the fair values of the contracts in force at 31 December 2018 and 2017 is as follows:

	2018	2019	2020	2021	Total fair value
Total assets 2018	-	9,102	129	-	**9,231**
Total liabilities 2018	-	55,044	1,242	-	**56,286**
Total assets 2017	37,787	361	-	-	**38,148**
Total liabilities 2017	28,423	2,489	-	-	**30,912**

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 cumulative gains and losses in the hedging reserve in equity, net of taxes, in connection with foreign currency forward contracts at 31 December 2018 amounted to loss of EUR 7,292 thousand (2017: profit of EUR 15,836 thousand), which is recognised in the income statement in the period(s) in which the hedged transaction affects profit or loss. The impact on the income statement recognised as part of profit from operations in 2018 was the loss of EUR 12,980 thousand (EUR 39,376 thousand in 2017).

The changes in hedging derivatives and the hedging reserve, as well as their impacts on equity and the income statement during the year, are as follows:

	31/12/2017	Income recognised in equity *	Settlements for the year ***	31/12/2018
Hedging derivatives (net liability position)	7,236	(42,336)	(11,955)	(47,055)

	31/12/2017	Income recognised in equity *	Transfers to the income statement **	31/12/2018
Hedging reserve (gross of tax effect)	(18,981)	42,336	(12,980)	10,375

* Refers to the portion of the profit or loss on the hedged instrument that has been determined to be an effective hedge.
** Amount taken to the income statement for the year, to the extent that the hedged transaction impacts profit or loss.
*** Value of the hedging derivatives settled by the Group during the year.

	31/12/2016	Income recognised in equity *	Settlements for the year ***	31/12/2017
Hedging derivatives (net asset position)	(133,940)	150,913	(9,737)	7,236

	31/12/2016	Income recognised in equity *	Transfers to the income statement **	31/12/2017
Hedging reserve (gross of tax effect)	92,556	(150,913)	39,376	(18,981)

* Refers to the portion of the profit or loss on the hedged instrument that has been determined to be an effective hedge.
** Amount taken to the income statement for the year, to the extent that the hedged transaction impacts profit or loss.
*** Value of the hedging derivatives settled by the Group during the year.

In 2018 and 2017, no ineffectiveness worthy of mention arose as a result of foreign currency hedges, which is recognised, if it arises, in the income statement as financial profit or loss.

10. Trade and other receivables

The detail of this heading at the end of 2018 and 2017 is as follows:

	2018	2017
Trade receivables	2,014,557	2,357,398
Customer retentions	301,322	251,415
Less: Provision for impairment of accounts receivable	(31,299)	(14,331)
Trade receivables, net	2,284,580	2,594,482
Other accounts receivable	4,141	5,422
Prepayments	40,839	54,510
Tax receivables	81,224	125,256
Other	10,941	6,453
Total	**2,421,725**	**2,786,123**

Prepayments refer to the payments made on account for specific supplies to be used in the Group's projects. The increase or decrease in the amount of this heading is cyclical and depends on the stage of completion of each of the projects at the reporting date.

Trade receivables include EUR 1,658,952 thousand (2017: EUR 1,922,166 thousand) relating to completed work yet to be billed, which is calculated in accordance with the criteria for recognising revenue established in Note 2.21.

This heading includes the non-contentious claims expected to be collected from customers that are being negotiated and recognised in accordance with that indicated in Note 2. Depending on the types of projects in the portfolio, negotiations with customers regarding claims may go on during the entire life of the project, and are usually concluded in the final stage of the project.

At 31 December 2018 and 2017, EUR 221 million and EUR 244 million, respectively, had been recognised. In the first few months of 2019, favourable agreements were entered into with customers that include EUR 31 million of the amounts recognised at 31 December 2018. At 31 December 2018 and the 2017, the total amount requested in claims amounted to EUR 895 million and EUR 581 million, respectively.

The breakdown of the geographical areas of the amounts recognised is as follows:

Middle East 56%
America: 27%
Mediterranean and Asia: 17%

In addition, ongoing change orders with customers for changes in the scope or modifications not included in the original contract were recognised in accordance with that indicated in Note 2.21. At 31 December 2018 and 2017, EUR 178 million and EUR 47 million, respectively, had been recognised. At 31 December 2018 and the 2017, the total amount requested amounted to EUR 537 million and EUR 376 million, respectively. In the first few months of 2019, favourable agreements were entered into with customers that include EUR 10 million of the amounts recognised at 31 December 2018.

With regard to the EUR 291 million recognised as income on account for claims and change orders at the end 2017, EUR 116 million were still in the process of being negotiated as of the date of issue of these consolidated financial statements. The historical net rate of realisation for the amounts recognised as claims and change orders for the last four years (2014-2017) has been established at 77%-116%.

There was no significant effect on the fair values of trade and other receivables. Nominal amounts are considered to approximate the fair value of these receivables and the effect of discounting is not significant under any circumstances.

Maximum exposure to credit risk at the reporting date is the carrying amount of the trade and other receivables.

At 31 December 2018, unmatured trade receivables invoiced amounted to EUR 270,445 thousand (2017: EUR 286,842 thousand).

At 31 December 2018, trade receivables amounted to EUR 182,471 thousand (2017: EUR 233,688 thousand), which were past due but not impaired. These receivables relate to a number of independent customers for whom there is no recent history of default.

The analysis of the age of these accounts receivable is as follows:

	2018	**2017**
Less than 3 months	41,557	58,187
Between 3 and 6 months	30,985	42,584
More than 6 months	109,929	132,917
	182,471	**233,688**

The Group recognised a loss of EUR 21,514 thousand for the impairment loss on the value of its trade receivables in the year ended 31 December 2018 (2017: EUR 497 thousand). The changes in the provision for impairment of trade receivables are as follows:

	2018	2017
Beginning balance	**14,331**	**13,983**
Adoption of IFRS 9 with a charge to reserves (Note 2.1)	20,369	-
Impairment losses charged to income	1,145	497
Amounts used	(4,546)	(149)
Ending balance	**31,299**	**14,331**

The carrying amounts of trade receivables, excluding the portion corresponding to completed work yet to be billed, are denominated in foreign currencies:

	2018	2017
Euro	89,472	107,347
US dollar	193,334	240,293
Other currencies	374,121	339,007
Subtotal	656,927	686,647
Completed work pending certification	1,658,952	1,922,166
Total	**2,315,879**	**2,608,813**

The total amount of costs incurred and profit recognised accrued at source for all contracts in progress at the balance sheet date was EUR 16,798,089 thousand (2017: EUR 13,332,463 thousand) and EUR 1,027,889 thousand (2017: EUR 807,735 thousand), respectively.

The amount of advances received on projects in progress is disclosed in Note 19. As in the case of advances to suppliers, the amount of this heading is cyclical and depends on the stage of completion of each of the projects at the reporting date. Customer retentions amounted to EUR 301,322 thousand in 2018 (2017: EUR 251,415 thousand).

11. Inventories

The detail of “Inventories” is as follows:

	2018	2017
Commodities	-	304
Work in progress	19,191	13,656
Finished goods	3,846	3,964
	23,037	**17,923**

“Work in progress” includes the amount of costs for submitting bids for those contracts obtained or that are likely to be obtained.

12. Accounts receivable and other financial assets

Accounts receivable and other non-current financial assets	2018	2017
Loans to employees	1,091	1,314
Long-term loans to associates	850	-
Other financial assets at amortised cost	5,264	5,232
Loans to public authorities	8,836	8,836
Other non-current financial assets	84,405	6,556
	100,446	**21,938**
Impairment loss on accounts receivable	(8,569)	(2,500)
	91,877	**19,438**
Accounts receivable and other current financial assets		
Loans to venturers in UTEs and joint ventures	9,637	13,820
Interest	-	1,579
Current investments held to maturity	927	1,085
	10,564	**16,484**

The changes in the provision for impairment of accounts receivable and other financial assets are as follows:

	2018	2017
Beginning balance	**2,500**	**2,500**
Adoption of IFRS 9 with a charge to reserves (Note 2.1)	6,069	-
Ending balance	**8,569**	**2,500**

The carrying amount of accounts receivable and other financial assets is considered to approximate their fair value. Maximum exposure to credit risk at the reporting date is the carrying amount of the accounts receivable and other financial assets.

"Other non-current financial assets" includes mainly the amounts transferred to customers as security for compliance with any obligations that may arise from the outcome of lawsuits. The Group includes the estimated probable cost that could arise from the outcome of the aforementioned lawsuits under "Non-current provisions".

The average interest rate on loans to venturers in UTEs and joint ventures is the market rate of Euribor + 1% and other benchmarks +1.25% (2017: Euribor + 1%).

"Other financial assets at amortised cost" includes mainly guarantees and deposits.

"Loans to public authorities" includes the balances receivable for various 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 yet 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.

13. Financial assets at fair value through profit or loss

The detail of this heading and of the changes therein is as follows:

	2018	2017
Beginning balance	67,362	64,169
Net additions and disposals (fair value)	(2,545)	3,193
Ending balance	**64,817**	**67,362**
Listed securities:		
- Fixed-income investments	48,346	47,948
- Equity investments	16,471	19,414
	64,817	**67,362**

All financial assets are designated as held for trading.

Financial assets at fair value through profit or loss are presented in “Changes in working capital” under cash flows from operating activities in the statement of cash flows.

The Group did not invest in funds or carry out any disposals in 2018 or 2017.

Financial assets at fair value through profit or loss represent investments in listed equities and short-term fixed-income funds and their fair value at 31 December 2018 and 2017 has been determined by reference to year-end market prices. Returns on fixed-income securities are tied to trends in interest rates in the euro zone.

14. Cash and cash equivalents

The detail of cash and cash equivalents is as follows:

	2018	2017
Cash on hand and at banks	429,304	314,074
Short-term bank deposits and other cash equivalents	251,475	255,864
	680,779	**569,939**

This heading includes cash (cash on hand and demand deposits) and cash equivalents (short-term, highly liquid investments, easily convertible into cash within a maximum period of three months the value of which is subject to an insignificant risk of changes in value). The short-term bank deposits earn interest at market rates. The average yields on deposits were: 0% EUR and 2% USD in 2018, and 0% EUR and 0.9% USD in 2017, and for average term of 14 days in both years.

Of the total balance of cash and cash equivalents at 31 December 2018, EUR 332,324 thousand (EUR 109,803 thousand in 2017) arose from the inclusion of the joint ventures and temporary joint ventures in the scope of consolidation, as detailed in Appendices III and IV, respectively.

There were no cash or cash equivalents with restricted availability at 31 December 2018 and 2017, however, the cash from the joint arrangements with other partners is allocated in full to the project subject to such joint venture or UTE.

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

15. Share capital

	Share capital	Share premium	Treasury shares	Total
Balance at 1 January 2017	**5,590**	**8,691**	**(72,623)**	**(58,342)**
Other changes	-	-	(418)	(418)
Balance at 31 December 2017	**5,590**	**8,691**	**(73,041)**	**(58,760)**
Other changes	-	-	(1,075)	(1,075)
Balance at 31 December 2018	**5,590**	**8,691**	**(74,116)**	**(59,835)**

At 31 December 2018 and 2017, the total authorised number of ordinary shares was 55,896,000 shares, with a par value of EUR 0.10 each. All of the shares issued are fully paid and carry the same voting and dividend rights. There are no restrictions on the free transferability of the shares.

The changes in “Treasury shares” in 2018 and 2017 were as follows:

	2018		2017	
	Number of treasury shares	**Thousands of euros**	**Number of treasury shares**	**Thousands of euros**
At beginning of year	2,167,274	73,041	2,140,093	72,623
Increases/purchases	4,088,054	106,432	6,983,681	222,283
Decreases/sales	(4,053,939)	(105,357)	(6,956,500)	(221,865)
At end of year	**2,201,389**	**74,116**	**2,167,274**	**73,041**

At 31 December 2018, treasury shares represented 3.93% of the Parent’s share capital (2017: 3.88%), and totalled 2,201,389 shares (2017: 2,167,274 shares), with an average acquisition price of EUR 38.41 per share (2017: EUR 33.7 per share).

Since 21 June 2006, all shares of Técnicas Reunidas, S.A. have been admitted to trading on for Spanish stock exchanges, are listed on the continuous market and form part of the Ibex35 index.

The share capital of Técnicas Reunidas, S.A. is represented as follows:

	2018	**2017**
Shareholder	**% ownership interest**	**% ownership interest**
Aragonesas Promoción de Obras y Construcciones, S.L.U.	5.10%	5.10%
Araltec Corporación, S.L.U.	31.99%	31.99%
Franklin Templeton Investment Management Ltd	3.00%	3.00%
Norges Bank	-	3.02%
Ariel Investments, L.L.C.	3.01%	3.01%
Citadel Multi-Strategy Equities Master Fund Ltd.	-	1.26%
Other shareholders (including free float)	52.97%	48.74%
Treasury shares	3.93%	3.88%
TOTAL	**100.00%**	**100.00%**

In accordance with the notice filed with the Spanish National Securities Market Commission (CNMV), on 12 December 2017 José Lladó Fernández-Urrutia held direct and indirect ownership interest of 37.20% in Técnicas Reunidas, S.A. through Araltec Corporación, S.L.U. and Aragonesas Promoción de Obras y Construcciones, S.L.U.

On 25 June 2014, the shareholders at the Parent's Annual General Meeting authorised the acquisition of treasury shares up to the limit established by law, at a minimum price of 75% of their listed value and a maximum price of 120% of their listed value on the transaction date. The authorisation was granted for a period of five years from the date on which the resolution was passed.

The Parent entered into a liquidity agreement with Santander Investment Bolsa, Sociedad de Valores, S.A.U. The framework of this agreement included the Spanish stock exchanges and aims to favour transaction liquidity. The agreement was signed for a term of one year, which was reviewed on 10 July 2017 in accordance with CNMV Circular 1/2017, of 26 April, and was extended for an additional year on 10 July 2018. The shares allocated to the securities account associated with the agreement amounted to EUR 74,500 thousand and a total of EUR 2,574 thousand were allocated to the cash account associated with the agreement.

16. Other reserves

	Thousands of euros	
	2018	**2017**
Legal reserve	1,137	1,137
Capitalisation reserve	3,056	3,056
	4,193	**4,193**

Legal reserve

The legal reserve has reached the stipulated level, cannot be distributed to shareholders and can only be used to offset losses, provided that other reserves are not available for this purpose. Under certain conditions, it may also be used to increase share capital.

Capitalisation reserve

Funds are allocated to the capitalisation reserve in accordance with article 25 of Spanish Law 27/2014 on Corporation Tax (*Ley del Impuesto de Sociedades*). This reserve is restricted for a period of five years in accordance with the terms established by this article.

17. Cumulative translation differences

	Thousands of euros
1 January 2017	**(17,630)**
Translation differences:	
– Transfers	27,138
– Group companies and associates	(41,348)
31 December 2017	**(31,840)**
Translation differences:	
– Transfers	(956)
– Group companies and associates	(5,732)
31 December 2018	**(38,528)**

The transfer carried out in 2017 was related to the dividends received by the Parent from one of its subsidiaries and related to the difference between the historical exchange rate generating such reserves and the exchange rate applicable when this dividend was approved.

The breakdown, by company or subgroup, of the cumulative translation differences at the end of 2018 and 2017 is as follows:

	2018	**2017**
Company or subgroup		
Técnicas Reunidas, S.A.	419	(3,634)
- Abu Dhabi branch	*6,959*	*7,583*
- Australia	*(3,669)*	*(5,259)*
- Ankara branch	*43*	*2,088*
- Moscow branch	*(2,213)*	*(2,199)*
- Kuwait branch	*2,492*	*(3,451)*
- Algeria branch	*(2,457)*	*(2,577)*
- Other	*736*	*181*
Técnicas Reunidas RUP Insaat (Turkey)	(5,313)	(1,144)
Técnicas Reunidas TEC (Bolivia)	(4,529)	(4,706)
Técnicas Reunidas Canada (Canada)	(1,298)	(2,970)
TSGI Mühendislik İnşaat Limited Şirketi	(17,389)	(7,697)
Técnicas Reunidas Australia Pty Ltd (Australia)	(377)	(224)
Técnicas Reunidas Saudia (Saudi Arabia)	(9,303)	(10,717)
Técnicas Reunidas Gulf Ltd. (Saudi Arabia)	1,994	524
Técnicas Reunidas Chile Limitada (Chile)	714	1,299
Técnicas Reunidas Peru de Talara	(2,879)	(2,851)
Técnicas Reunidas Omán LLC (Oman)	23	(333)
Treunidas Mühendislik ve İnsaat A.S	(645)	(360)
Técnicas Reunidas Mexico	764	933
Técnicas Reunidas PIC (Peru)	44	39
Other	(753)	833
Total	**(38,528)**	**(31,840)**

18. Dividend distribution and non-controlling interests

The proposed distribution of the Parent's loss for 2018 to be submitted at the Annual General Meeting, as well as the approved distribution of profit for 2017, is as follows:

	2018	2017
Basis of allocation		
Profit (loss) attributable to the Parent	(25,357)	187,333
	(25,357)	**187,333**
Allocation		
Prior years' losses	(25,357)	-
Other reserves	-	137,333
Dividends	-	50,000
	(25,357)	**187,333**

The breakdown of dividends is as follows:

2018: The Parent's Board of Directors did not approve the distribution of any interim dividends.

2017: the EUR 50,000 thousand in dividends breaks down as follows:

An interim dividend of EUR 35,852 thousand approved by the Parent's Board of Directors on 21 December 2017 and paid on 18 January 2018.

A final dividend of EUR 14,148 thousand approved by the shareholders at the Parent's Annual General Meeting on 27 June 2018.

Retained earnings

These are unrestricted voluntary reserves that amounted to EUR 446,478 thousand at 31 December 2018 (EUR 551,494 thousand at 31 December 2017).

Non-controlling interests

The changes in non-controlling interests in 2018 and 2017 are as follows:

Balance at 01/01/2017	**4,102**
Profit	19,439
Translation differences	(169)
Dividends paid to non-controlling interests	(5,139)
Balance at 31/12/2018	**18,233**
Profit	2,473
Translation differences	69
Dividends paid to non-controlling interests	(7,204)
Balance at 31/12/2018	**13,571**

19. Trade and other payables

a) Trade payables are broken down as follows:

Trade payables

	2018	**2017**
Payables to suppliers	2,295,399	2,476,081
Supplier retainings	196,858	160,116
Prepayments received for contract work	136,932	138,276
Other	24,880	21,540
	2,654,069	**2,796,013**

b) Other accounts payable are broken down as follows:

Other accounts payable

	2018	**2017**
Non-current		
Liabilities arising from finance leases	356	288
	356	**288**
Current		
Dividends payable	-	35,819
Other	7,733	510
	7,733	**36,329**

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

20. Borrowings

	2018	**2017**
Non-current		
Borrowings	388,491	92,215
	388,491	**92,215**
Current		
Borrowings	99,402	292,219
	99,402	**292,219**
Total borrowings	**487,893**	**384,434**

The average interest rates were as follows:

	2018		2017	
	Euros	PLN/ USD/ MYR	Euros	PLN
Borrowings	0.80%	1.35% / 1.5% / 0.65%	0.65%	1.35%

The carrying amount of current and non-current borrowings approximates their value at amortised cost, as the impact of discounting is not significant. The borrowings are tied to variable interest rates, mainly the Euribor, and reviewed on a monthly basis.

The maturities of the borrowings are broken down in Note 3 - Liquidity risk. The carrying amount of the Group's borrowings is denominated in the following currencies:

	2018	2017
Euros	410,320	376,299
US dollars and other currencies	77,573	8,135
	487,893	**384,434**

The Group has the following undrawn credit lines:

Floating rate:	2018	2017
- maturing within one year	669,851	374,671
- maturing within more than one year	172,086	513,329
	841,937	**888,000**

The syndicated loan agreement requires a net financial debt/EBITDA ratio that is less than or equal to 3. This condition was met as of the date of authorisation for issue of these financial statements.

21. Provisions for contingencies and charges

a) Provisions for contingencies and charges - Non-current

CONCEPT	Provision for estimated losses	Provision for infrastructure	Other provisions for contingencies	Total provisions for contingencies and charges
Balance at 01/01/2017	**2,484**	**16,642**	**15,850**	**34,976**
Reversals/amounts used	(1,174)	(14,642)	-	(15,816)
Charge for the year	-	-	24,042	24,042
Balance at 31/12/2017	**1,310**	**2,000**	**39,892**	**43,202**
Reversals/amounts used	-	-	(4,385)	(4,385)
Transfer to short term	-	-	(27,000)	(27,000)
Charge for the year	2,122	2,000	23,700	27,822
Balance at 31/12/2018	**3,432**	**4,000**	**32,207**	**39,639**

The amount arising from the Sines lawsuit was transferred to current, as there is an arbitral award in line with the projections of the Group and its advisors and with the provision recognised in previous years. Although the customer has appealed this arbitral award before the Portuguese courts, the Group expects that payment will have to be made in 2019.

Provision for estimated project loss:

In compliance with that established in IFRS 15, the Group recognises provisions to cover estimated future losses on projects currently in progress.

Provision for infrastructure:

For those projects that are completed, the Group also estimates the probable costs that will subsequently be incurred.

Other provisions:

This line item relates to provisions arranged to cover other contingencies and charges, provisions for probable risks, provisions for risks of litigation and other non-current payments to be made.

With regard to non-current provisions, given the nature of the risks included, it is not possible to determine a reasonable schedule for the related payments.

b) Provisions for contingencies and charges – Current

	Thousands of euros
Balance at 1 January 2017	**7,249**
Reversals/amounts used	(3,611)
Charge for the year	-
Balance at 31 December 2017	**3,638**
Reversals/amounts used	(775)
Transfers	27,000
Charge for the year	-
Balance at 31 December 2018	**29,863**

22. Revenue

	2018	2017 restated
Income from engineering and construction contracts	4,396,310	5,067,926
Services rendered	18	18
Total revenue	**4,396,328**	**5,067,944**

Note 5 presents the main business segments and geographical areas in which the Group operates.

23. Procurements and other operating income and expenses

a) Procurements

"Procurements" includes mainly the amount of materials and the costs of subcontracting construction and engineering services.

b) Other operating income and expenses

	2018	2017 restated
Other operating expenses		
Services	69,248	73,222
Independent professional services	56,555	49,890
Repairs and upkeep	11,936	8,098
Banking and similar services	39,472	33,975
Transport costs	25,099	26,306
Insurance premiums	10,835	11,134
Utilities and supplies	13,016	16,247
Other	30,685	35,212
	256,846	**254,084**

"Other operating expenses - Other" includes the period provisions (net of reversals) for current and non-current contingencies and charges amounting to EUR 22,663 thousand.

"Services" includes the expenses related to the work performed by the Group.

	2018	2017 restated
Other operating income		
Grants related to income	597	821
Other	6,209	7,308
	6,806	**8,129**

"Other" includes mainly the income obtained from the operation of concessions.

24. Employee benefit expenses

	2018	2017 restated
Wages and salaries	491,474	488,958
Social security expense	78,354	78,065
Other staff costs	12,162	12,561
Long-term employee remuneration obligations	2,044	1,915
	584,033	**581,498**

Wages and salaries includes an amount of EUR 6,049 thousand (2017: EUR 6,498 thousand) as severance payments.

25. Operating leases

The Group has offices leased under non-cancellable operating lease agreements. These leases have a term of between 3 and 10 years, and the majority of them are renewable at the end of the lease period at a market rate.

The minimum future payments to be made for leases under non-cancellable operating leases are as follows:

	2018	2017
Less than 1 year	19,662	19,961
Between 1 and 5 years	28,134	24,908
Over 5 years	76	-

The expense recognised in the income statement during the year corresponding to operating leases amounted to EUR 18,742 thousand (2017: EUR 28,240 thousand), corresponding in its entirety to minimum lease payments.

26. Financial profit/(loss)

	2018	2017 restated
Finance income:		
Interest income from short-term deposits in banks and others	6,483	5,725
Net earnings/(losses) in the fair value of financial instruments at fair value, with changes posted to profit/(loss) and others	(2,546)	3,198
Total finance income	**3,936**	**8,923**
Finance costs:		
Interest expense on loans with banks	(10,563)	(9,139)
Net losses from foreign currency transactions	(12,211)	(7,033)
Total finance costs	**(22,774)**	**(16,172)**
	(18,837)	**(7,249)**

Note 9 explains the impact of foreign currency hedging contracts on profit/(loss). That impact, as well as exchange gains/(losses) generated by the hedged instrument, is recognised as part of the operating profits/(losses).

27. Income tax

The companies of the Técnicas Reunidas group included in the Consolidated Taxation Regime are the following: Técnicas Reunidas, S.A., Técnicas Reunidas Internacional, S.A., Termotécnica, S.A., Técnicas Reunidas Construcciones y Montajes, S.A., Técnicas Reunidas Ecología, S.A Técnicas Siderúrgicas, S.A., Española de Investigación y Desarrollo, S.A. y Técnicas Reunidas Proyectos Internacionales, S.A. Técnicas Reunidas Metalúrgicas, S.A., Layar, S.A, Layar Real Reserva, S.A. Eurocontrol, S.A. y ReciclAguilar, S.A Initec Plantas Industriales, S.A.U. Initec Infraestructuras, S.A.U. Eurocontrol International Services, S.L. y Euromoody International Services, S.L, Heymo, S.A. y Serviheymo, S.A. Deportes Valdavia 2017 S.L., Valdavia Gym, S.L. and Valdavia Pádel, S.L.

For the calculation of the tax base of the tax group and the different individual companies included in the scope of consolidation, the accounting profit/(loss) is adjusted in accordance with the temporary and permanent differences that may exist, giving rise to the corresponding deferred tax assets and liabilities. In general, the deferred tax assets and liabilities arise as a consequence of valuation standardisations between accounting criteria and principles of individual companies and those of the consolidated group, to which those of the parent apply.

The Current tax liabilities heading contained the balances for Withholdings, Social Security and other items in the amount of EUR 6,311 thousand at 31 December 2018 (EUR 35,117 thousand at 31 December 2017).

The breakdown of the tax expense is as follows:

	2018	2017 restated
Current tax	27,044	53,719
Deferred tax	(24,291)	(31,803)
Prior years' adjustments	5,090	3,574
Income tax	7,843	25,490

The tax on the Group's profit before taxes differs from the theoretical amount that would have been obtained using the tax rate applicable to the profits of the consolidated companies as follows:

	2018	2017 restated
Profit before taxes	**22,290**	**84,456**
Tax calculated at the tax rate applicable to the profits of the Parent	5,573	21,114
Tax effects of:		
- Tax-exempt profits	(1,549)	(1,240)
- Non-deductible expenses for tax purposes	6,099	4,503
- Effect of difference in tax rates in other countries	(3,882)	(12,180)
- Tax losses for which no tax credit has been recognised	-	9,045
- Deductions applied and non-recoverable withholdings	(190)	(915)
- Tax loss carryforwards	(1,721)	-
- Previous year corporation tax adjustment	5,090	3,476
- Other	(1,577)	1,687
Tax expense	**7,843**	**25,490**

The effective tax rate was 35.18% (29.8% in 2017).

The breakdown of the deferred tax assets and liabilities is as follows:

	2018	2017
Deferred tax assets		
recoverable in over 12 months	285,208	251,564
recoverable in under 12 months	34,052	3,000
	319,260	**254,564**
Deferred tax liabilities		
payable in over 12 months	54,293	39,520
payable in under 12 months	-	-
	54,293	**39,520**

The movement in the deferred tax assets and liabilities is as follows:

	Asset	Liability
At 1 January 2017	**225,753**	**21,428**
Generations and reversions with impact on the income statement	44,549	11,241
Generations and reversions with impact on equity	(15,738)	6,851
At 31 December 2017	**254,564**	**39,520**
Generations and reversions with impact on the income statement	45,263	20,972
Generations and reversions with impact on equity	19,433	(6,199)
At 31 December 2018	**319,260**	**54,293**

The prepaid or deferred taxes arise from the following items:

Assets	**2018**	**2017**
Tax credits from tax loss carryforwards	41,676	32,842
Losses incurred in subsidiaries and permanent establishments	207,710	172,886
Project valuation standardisation	15,506	21,594
Hedging reserve	3,301	3,273
Impact IFRS 15 and IFRS 9	18,014	-
Other items	33,053	23,969
	319,260	**254,564**

Liabilities	**2018**	**2017**
-Timing differences in countries	45,217	26,102
-Project valuation standardisation and others	8,424	6,567
-Hedging reserve	652	6,851
	54,293	**39,520**

The deferred tax assets are recognised insofar as the realisation of the corresponding tax benefit through future taxable profits is likely.

A breakdown by geographic zone of the tax credits from tax loss carryforwards pending offset activated at 31 December 2018 and 2017 and of the prepaid taxes arising from losses incurred in subsidiaries and permanent establishments is presented below:

	2018	2017
Spain	12,108	-
Saudi Arabia	23,389	23,626
America	5,946	5,846
Others	233	3,370
Total tax credits from tax loss carryforwards	**41,676**	**32,842**
Spain	207,710	172,886
Total prepaid taxes arising from losses incurred in subsidiaries and permanent establishments	**207,710**	**172,886**

In Spain and Saudi Arabia there is no time limit to apply prepaid taxes and deduct tax losses, respectively, pursuant to the legislation in force.

It is expected to recover the tax credits and prepaid taxes generated by losses in branches/subsidiaries of the Parent in a period not exceeding 10 years, as, among other actions, there is a plan set out to liquidate those subsidiaries/branches in a shorter period.

The details of tax loss carryforwards from foreign subsidiaries on which tax assets have not been recognised essentially corresponds to the following:

	2018		2017	
	Base	**Tax charge**	**Base**	**Tax charge**
Portugal	30,467	6,398	34,986	8,747
Saudi Arabia	35,000	7,000	35,000	7,000

Management does not consider their activation at the year-end as it is not possible to reliably predict their recovery date.

No deferred taxes were generated in 2018 and 2017 from transactions charged or paid directly against equity, in addition to those detailed in the Consolidated Financial Statement and those derived from the application of IFRS 9 and 15.

At 31 December 2018 and 2017, the Group did not have any unused tax credits.

On 28 June 2014, the Tax Agency communicated to Técnicas Reunidas, S.A., as Parent of the Tax Group, the initiation of inspection proceedings for the 2008-2011 corporation tax.

On 15 June 2015, the Company received a settlement proposal for an amount of EUR 136.2 million plus interest, signing that assessment in disagreement. The Settlement Agreement is based on the discrepancies of the Tax Agency with the criteria on which the Group's transfer pricing strategy is based.

On 10 July 2015, the settlement proposal was unsuccessfully appealed for reconsideration before the Tax Agency. The Company filed a judicial review appeal against the stated resolution before the Central Economic Administrative Court on 15 September 2015. The Central Economic Administrative Court took over the case on 23 September 2016 and, on 7 October 2016, the Company filed a written claim for the rectification of the case. The Central Economic Administrative Court admitted this on 1 February 2017. On 31 July 2017, the submissions were presented.

On 6 September 2018, the Central Economic Administrative Court partially ruled in favour of the Group, reducing the settlement amount by EUR 20,972 thousand plus interest. The Spanish Tax Administration Agency has not filed an appeal against this ruling.

On 26 October 2018, the Group filed a judicial review appeal against the resulting settlement before the National Court. The process is currently pending the National Court's transfer of the case files and communication of the period to file the claim.

In the opinion of the Company's Management and its tax advisers, it is concluded that it is not likely that the amount of the tax assessments appealed before the National Court will have to be paid. Management considers that there are technical arguments for the opinions of Técnicas Reunidas to be upheld in their entirety, and that likelihood is higher in the Judicial Review phase. Técnicas Reunidas' judgment is based on the fact that the Agreed Assessments signed in 2010 recognised the right of exemption of the unincorporated temporary joint ventures with which the Técnicas Reunidas group operates abroad and, moreover, defined the intragroup transactions model on which Técnicas Reunidas developed its new transfer pricing model, with the support of its tax advisers. In addition to the technical bases that support this argument, the consideration that the currently inspected model has been prepared taking the points established by the tax authorities included in the previous Agreed Assessments signed with the Tax Agency in 2010 as a basis is highly relevant.

Consequently, Management considered that it was not appropriate to record any liability.

On the date of formulation of these Financial Statements, the Company has not had to make any payment relating to Disputed Assessments. Guarantees have been issued in an amount of EUR 136.2 million of tax payable and EUR 45 million of default interest. The Group estimates that these guarantees will be reduced by approximately EUR 25 million as a consequence of the stated resolution of the Central Economic Administrative Court.

On 3 July 2017, the tax inspection for corporation tax for the 2012 to 2014 financial years and the other taxes for the 2014 to 2015 financial years was commenced.

In 2017, the Company received a notification from the National Court dismissing our appeals on the assessments related to the taxes for the 2004 to 2007 financial years. Although the Company's Management filed an appeal before the Constitutional Court, it proceeded to record them in the accounting. In 2018, the Constitutional Court did not admit to processing the appeal. On 22 October 2018, the amount of those assessments was settled.

The details of the financial years open to inspection, in addition to those that are being inspected, is as follows:

Tax	Years
Corporation Tax	2015-2017
Value-Added Tax	2016-2018
Personal Income Tax	2016-2018
Other taxes	Last 4 years

One of the consequences of the various possible interpretations of the current tax law is that additional liabilities may arise as the result of an inspection. In any case, the Parent's Directors consider that, should they arise, these liabilities would not have a material effect on the consolidated financial statements.

28. Earnings per share

a) Basic

Basic earnings per share are calculated by dividing the profit attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares acquired by the Parent.

b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to reflect the conversion of all the potential dilutive ordinary shares. Given that the Parent does not hold any class of potential dilutive ordinary shares, the diluted earning per share matches the basic earning per share.

	2018	2017 restated
Profit for the year attributable to ordinary equity instrument holders of the entity	11,974	39,527
Weighted average no. of ordinary shares outstanding	53,711,669	53,742,316
Earnings per share of the profit attributable to ordinary equity instrument holders of the entity (EUR per share)	0.22	0.73

29. Dividends per share

During 2018, the distributed dividends corresponding to profit/(loss) for 2017 were EUR 50,000 thousand (of which EUR 35,852 thousand had been declared in 2017 as interim dividend), which entails a dividend per share of EUR 0.93.

During 2017, the distributed dividends corresponding to profit/(loss) for 2016 were EUR 75,000 thousand (of which EUR 35,852 thousand had been declared in 2016 as interim dividend), which entails a dividend per share of EUR 1.39.

30. Contingencies and securities established

The Group has contingent liabilities for bank guarantees and other securities related to the normal course of business. It is envisaged that no significant liability will arise from them in addition to those cases for which provisions were made as mentioned in Note 21. In the normal course of the activities, and as is usual among companies dedicated to engineering and construction activities, the Group has issued guarantees to third parties for a value of EUR 5,196,055 thousand (2017: EUR 4,209,246 thousand) to guarantee the adequate fulfilment of agreements.

In accordance with the general contracting terms of the Company and the Group companies, they are obliged to issue technical guarantees in relation to the execution of the works (bank guarantees) and they must be held for a certain period.

As mentioned in Note 7, the bank borrowings in the amount of EUR 18,604 thousand (2017: EUR 21,545 thousand) financed the construction of the Concessions. Those loans (except for EUR 1,200 thousand) are secured with the stated concession assets.

In relation to the inspection proceedings mentioned in Note 27, guarantees have been presented before the Tax Administration in an amount of EUR 136.2 million of tax payable and EUR 45 million of default interest. The Group estimates that these guarantees will be reduced by approximately EUR 25 million as a consequence of the stated resolution of the Central Economic Administrative Court mentioned in that note.

The Group is party to certain judicial and arbitration disputes, framed in the projects closure process, with customers and suppliers. Based on the opinion of the Group’s legal advisers, formulated based on the available information, the Company believes that, except for the disputes for which the provision corresponding to the best forecast made on the impact that its resolution could have has been recognised (see Note 21), their outcome will not significantly influence the Group’s financial position.

31. Commitments

Fixed-asset purchase commitments

There are no significant investment commitments in relation to asset purchases at 31 December 2018 or 31 December 2017.

Operating lease commitments

The Group leases several premises under non-cancellable operating lease agreements. These leases have variable terms, clauses by tranches and renewal rights. The Group is obliged to notify the termination of these agreements with six months' notice (see Note 25).

Supplier and contractor purchase commitments

The Group has payment commitments vis-à-vis its suppliers, in addition to those recognised in the trade payables heading, as a result of orders in the preparation or construction phase that cannot be invoiced until the contractual milestones are reached. In this respect, the invoices to customers of the Group are issued in accordance with contractual milestones of a similar nature to those that the Group maintains with its suppliers.

Information on the average period of payment to suppliers. Third Additional Provision. "Reporting obligations" under Spanish Law 15/2010, of 5 July. (Under the new wording given by final provision two of Spanish Law 31/2014 reforming the Spanish Corporate Enterprises Act (*Ley 31/2014 de reforma de la Ley de Sociedades de Capital*))

As established by the reference law, as well as the resolution of the Spanish Accounting and Account Auditing Institute of 29 January 2016, the following information is broken down in reference to the average period of payment to suppliers.

	2018	2017
	Days	Days
Average payment period to suppliers	70	74
Ratio of transactions paid	65	73
Ratio of transactions payable	100	75

	Thousands of euros	
Total payments made	3,682,087	1,263,261
Total payments pending	696,708	268,182

The Group is complying with the legally established deadlines with some minor delays due to invoices that are not officially compliant under the agreement, failure to receive guarantees or meet other obligations of suppliers under the service agreement or order signed. In view of this there may be a slight delay in payment.

The calculation of the data of the above table was performed in accordance with the Spanish Accounting and Account Auditing Institute resolution of 29 January 2016. For the purposes of this note, the trade payables item includes the heading of suppliers and sundry payables for debts to goods suppliers or service providers included in the scope of the regulation on legal payment deadlines.

For the calculation of the information contained in this note, the transactions executed with the Group's suppliers has been considered after eliminating the reciprocal credits and debits of the subsidiaries and, as applicable, those of the multi-group companies pursuant to the applicable consolidation rules.

The above table only includes the information corresponding to the Spanish entities included in the consolidated group.

32. Related-party transactions

The related-party transactions during 2018 and 2017 pertain to the Company's ordinary business. The stated transactions executed with related parties are as follows:

a) Transactions executed with main shareholders of the Company

The Company did not execute transactions with any of its main shareholders in 2018 and 2017.

b) Transactions executed with Directors and Executives of the Company and entities linked to them

No transactions were executed with Company Directors during 2018 and 2017, except as detailed below:

- Transactions executed with Banco Sabadell during 2018:

The Company Director for whom the information is included was not a Director until the General Shareholders Meeting held on 27 June 2018; the stated information corresponds to the whole of 2018.

Transactions executed in the year:

Thousands of euros	**2018**
Finance Costs	228
Finance Income	12

Thousands of Euros	**2018**
Credit lines	5,000
Drawn balances	-
Guarantee line	60,000
Used guarantees	46,960
Exchange rate insurance	15,807

Furthermore, the group had necessary current accounts opened, in euros and currency, for the completion of its ordinary operations and, at 31 December 2018, the equivalent amount in current accounts and deposits amounted to EUR 37,910 thousand.

Moreover, Note 35 includes information related to the remuneration paid to the Directors of Técnicas Reunidas, S.A.

Remuneration paid to senior management

Furthermore, during 2018, remuneration (wages and salaries, both fixed and variable) was paid to senior management of the Group for a total of EUR 4,257 thousand (2017 comparison: EUR 4,899 thousand), as well as loans in the amount of EUR 335 thousand (2017: EUR 290 thousand).

c) Transactions executed with associates

Details of the balances and transactions with the associates included in Appendix II is presented below:

	2018				2017			
	Trade receivables	Payable to suppliers	Purchases	Sales	Trade receivables	Payable to suppliers	Purchases	Sales
Empresarios Agrupados, A.I.E.	134	308	5,889	1,964	738	680	7,652	1,702
E.A. Internacional, S.A.	3,916	29	13	10,493	6,515	14	32	13,546
Ibérica del Espacio, S.A.	1,331	-	-	229	1,771	-	-	299
TSGI	5,168	-	-	3,980	3,530	-	-	3,537

33. Joint operations and unincorporated temporary joint ventures

The Group has shares in joint ventures detailed in Appendix III. The amounts shown below represent the Group's share, in accordance with the percentage corresponding to it, in the assets and liabilities and the income and profit/(loss) of the joint ventures.

	Thousands of euros	
Assets:	**2018**	**2017**
Non-current assets	682	1,090
Current assets	338,826	164,669
Total assets	**339,508**	**165,759**

	Thousands of euros	
Liabilities:	**2018**	**2017**
Non-current liabilities	42,832	-
Current liabilities	273,667	132,422
Total liabilities	**316,499**	**132,422**
Net assets	**23,009**	**33,337**
Income	268,336	67,113
Expenses	(299,664)	(66,384)
Profit after taxes	**(31,328)**	**729**

There are no contingent liabilities corresponding to the Group's share in the joint ventures, or liabilities contingent on the joint ventures.

Unincorporated temporary joint ventures

The Group has shares in the unincorporated temporary joint ventures detailed in Appendix IV. The amounts shown below represent the Group's share, in accordance with the percentage corresponding to it, in the assets and liabilities, and the income and profit/(loss) of the unincorporated temporary joint ventures.

	Thousands of euros	
Assets:	**2018**	**2017**
Non-current assets	51,600	7,603
Current assets	952,291	1,752,009
	1,003,892	**1,759,612**

	Thousands of euros	
Liabilities:	**2018**	**2017**
Non-current liabilities	56,797	10,832
Current liabilities	933,618	1,582,789
	990,415	**1,593,621**
Net assets	**13,477**	**165,991**
Income	1,423,383	2,352,337
Expenses	(1,410,106)	(2,193,219)
Profit before taxes	**13,277**	**159,118**

There are no contingent liabilities corresponding to the Group's share in the unincorporated temporary joint ventures, or liabilities contingent on the unincorporated temporary joint ventures.

34. Environment

In view of the business activities carried out by the Group companies, the Group does not have any environmental expenses, assets, provisions or contingencies that could be material with regard to its equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

35. Other disclosures

a) Average number of employees of the Group by category

The average number of people employed over the year by the companies included by global integration in the scope of consolidation, distributed by categories, is as follows:

	2018	2017
Executive directors and senior executives	13	14
Graduates, other line personnel and clerical staff	8,729	8,591
Non-graduates/Unqualified staff	56	54
Sales staff	79	45
	8,877	**8,704**

The average number of people employed over the year by the joint ventures included by proportional integration in the scope of consolidation, distributed by categories, is as follows:

	2018	2017
Graduates, other line personnel and clerical staff	123	153
Non-graduates/Unqualified staff	27	29
Sales staff	4	5
	154	**187**

Moreover, the gender balance of the staff of companies included by global integration in the scope of consolidation at the year-end is as follows:

	2018			2017		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Executive directors and senior executives	11	2	13	12	2	14
Graduates, other line personnel and clerical staff	5,714	3,107	8,821	5,529	3,007	8,536
Non-graduates/Unqualified staff	55	2	57	50	1	51
Sales staff	51	29	80	28	15	43
	5,831	**3,140**	**8,971**	**5,619**	**3,025**	**8,644**

The above figures include 600 subcontracted workers (2017: 497 workers).

The average number of people employed in 2018 and 2017 by the companies included in the scope of consolidation with a disability level greater than or equal to 33% amounted to 75 workers in both years, in the "Graduates, other line personnel and clerical staff" category.

b) Fees paid to auditors

The fees for services contracted in 2018 and 2017 by companies of the Técnicas Reunidas Group with their respective auditors are as follows:

- <u>Fees for audits carried out:</u>

	Services rendered by the main auditor			
	2018		2017	
	PwC	Deloitte	PwC	Deloitte
Accounts audit services	485	526	515	325
Other verification work carried out by the auditor	158	36	232	42
Other services rendered by the auditor	31	-	40	-
Other services rendered by entities of the auditor network	318	113	452	294
	992	**672**	**1,239**	**661**

c) Information required by section 229 of the Spanish Corporate Enterprises Act

The Directors of the Parent do not have any issue to inform in relation to section 229 of the Spanish Corporate Enterprises Act, approved by means of Royal Legislative Decree 1/2010, of 2 July, except the following:

- Mr. José Lladó Fernández-Urrutia is Chairman of Técnicas Reunidas Internacional, S.A. and Joint Director at Técnicas Reunidas Proyectos Internacionales, S.A.
- Mr. Juan Lladó Arburúa is 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. Eurocontrol, S.A and Master S.A. de Ingenieria y Arquitectura. Moreover, he is a Committee Member of Administradores Empresarios Agrupados A.I.E., Vice-Chairman of Técnicas Reunidas Internacional, S.A and Española de Investigación y Desarrollo, S.A., and Joint Director of Técnicas Reunidas Proyectos Internacionales, S.A.
- Ms. Petra Mateos-Aparicio is non-executive Director of Ghesa.

d) Remuneration paid to members of the Parent's Board of Directors

The overall remuneration received by the members of the Company's Board of Directors during the years ended 31 December 2018 and 2017 is presented below:

- Allowances for attendance at Board of Directors meetings, received by all the Board members: EUR 1,884 thousand (2017: EUR 1,611 thousand).
- Wages and salaries: EUR 2,750 thousand (2017: EUR 2,750 thousand).
- Life insurance premiums and pension plans: EUR 40 thousand (2017: EUR 38 thousand).
- Services rendered to the Group: EUR 308 thousand (2017: EUR 306 thousand).
- Loans: EUR 0 thousand (2017: EUR 135 thousand)

Furthermore, the Group has paid EUR 137 thousand and 135 thousand in 2018 and 2017, respectively, as civil liability insurance to Managers and Directors.

36. Events after the balance sheet date

From 31 December 2018 until the date of formulation of these consolidated financial statements, there have been no subsequent relevant facts that need to be broken down.

37. 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.

APPENDIX I

Subsidiaries included in the scope of consolidation – 2018

Corporate Name	Address	% Share of Nominal Amount	Shareholder Company	Consolidation method	Activity	Auditor
Técnicas Reunidas Internacional, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
Termotécnica, S.A.	Spain	99.98%	Técnicas Reunidas, S.A. and Técnicas Reunidas Construcción y Montaje, S.A.	G.I.	Engineering Service and Machinery Wholesaler	Unaudited
Técnicas Reunidas Construcción y Montaje, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Property Development	Unaudited
Técnicas Reunidas Ecología, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Service	Unaudited
Técnicas Reunidas Metalúrgicas, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Service	Unaudited
Técnicas Reunidas Trade Panamá, S.A.	Panama	100%	Técnicas Reunidas, S.A.	G.I.	Inactive Company	Unaudited
Técnicas Siderúrgicas, S.A.	Spain	100%	Técnicas Reunidas Construcción y Montaje, S.A.	G.I.	Engineering Service	Unaudited
Técnicas Reunidas Proyectos Internacionales, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Service	Unaudited
Española de Investigación y Desarrollo, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Service	Unaudited
Layar, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Property Activity	Unaudited
Layar Real Reserva, S.A.	Spain	100%	Layar, S.A.	G.I.	Property Activity	Unaudited
Eurocontrol, S.A.	Spain	80%	Layar, S.A and Layar Real Reserva, S.A.	G.I.	Inspection, Quality Control, Technical Consulting.	Acisa
Initec Plantas Industriales, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	PwC/Deloitte
Initec Infraestructuras, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Chile Ltda.	Chile	100%	Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
ReciclAguilar, S.A.	Spain	80%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited

Técnicas Reunidas Gulf Ltd. – Saudi Arabia	Saudi Arabia	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	PwC/Deloitte
TR Engineering LLC – Oman	Oman	49%	Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Omán LLC	Oman	70%	Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Hellas, S.A. – Greece	Greece	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
Técnicas Reunidas Netherlands B.V.	Netherlands	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
Técnicas Reunidas de Construcao Unip. LDA – Portugal	Portugal	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Australia Pty Ltd	Australia	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
Técnicas Reunidas TEC – Bolivia	Bolivia	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas ReunidasR RUP INSAAT TAAHHÜT Limited Sirketi	Turkey	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Dufi CCGT Kft	Hungary	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	Unaudited
TR Canada Inc	Canada	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
TR Saudi Arabia LLC	Saudi Arabia	100%	Técnicas Reunidas, S.A. / Técnicas Reunidas Proyectos Internacionales, S.A.	G.I.	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.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Mühendislik ve İnsaat AS	Turkey	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
Técnicas Reunidas engineers India private limited (TREI)	India	100%	Técnicas Reunidas, S.A.	G.I.	Consultancy and assistance in international engineering projects	LUTHRA-LUTHRA
Tecreun República Dominicana, S.R.L.	Dominican Republic	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte

TR Perú Ingeniería y Construcción S.A.C.	Peru	100%	Técnicas Reunidas, S.A.	G.I.	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.	G.I.	Engineering Services	Unaudited
Técnicas Reunidas de Talara, S.A.C.	Peru	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Malaysia SDN.	Malaysia	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
TR Servicios S.R.L. de C.V.	Mexico	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	Unaudited
Técnicas Reunidas USA L.L.C.	United States	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
TR Louisiana L.L.C.	United States	100%	Técnicas Reunidas USA L.L.C.	G.I.	Engineering Services	Unaudited
Técnicas Reunidas Houston L.L.C.	United States	100%	Técnicas Reunidas USA L.L.C.	G.I.	Engineering Services	Unaudited
Heymo Ingeniería, S. A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Ghana	Ghana	100%	Técnicas Reunidas Netherlands B.V.	G.I.	Engineering Services	Unaudited
Eurocontrol International Services, S.L.	Spain	80%	Eurocontrol, S.A.	G.I.	Engineering Services	Unaudited
Euromoody International Services, S.L.	Spain	80%	Eurocontrol, S.A.	G.I.	Engineering Services	Unaudited
Serviheymo	Spain	100%	Heymo Ingeniería, S. A.	G.I.	Engineering Services	PwC/Deloitte
Tecnicas Reunidas Canada E&C INC.	Canada	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	Unaudited
TR Sagemis	Italy	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
Tecnicas Reunidas UK	UK	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
TR Metalúrgica Chile	Chile	100%	Termotécnica,S.A.	G.I.	Engineering Services	PwC/Deloitte
Deportes Valdavia	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
Valdavia Padel S.L.	Spain	100%	Deportes Valdavia, S.L.	G.I.	Engineering Services	Unaudited
Valdavia Gim S.L.	Spain	100%	Deportes Valdavia, S.L.	G.I.	Engineering Services	Unaudited

Subsidiaries included in the scope of consolidation – 2017

Corporate Name	Address	% Share of Nominal Amount	Shareholder Company	Consolidation method	Activity	Auditor
Técnicas Reunidas Internacional, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
Termotécnica, S.A.	Spain	99.98%	Técnicas Reunidas, S.A. and Técnicas Reunidas Construcción y Montaje, S.A.	G.I.	Engineering Service and Machinery Wholesaler	Unaudited
Técnicas Reunidas Construcción y Montaje, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Property Development	Unaudited
Técnicas Reunidas Ecología, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Service	Unaudited
Técnicas Reunidas Metalúrgicas, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Service	Unaudited
Técnicas Reunidas Trade Panamá, S.A.	Panama	100%	Técnicas Reunidas, S.A.	G.I.	Inactive Company	Unaudited
Técnicas Siderúrgicas, S.A.	Spain	100%	Técnicas Reunidas Construcción y Montaje, S.A.	G.I.	Engineering Service	Unaudited
Técnicas Reunidas Proyectos Internacionales, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Service	Unaudited
Española de Investigación y Desarrollo, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Service	Unaudited
Layar, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Property Activity	Unaudited
Layar Real Reserva, S.A.	Spain	100%	Layar, S.A.	G.I.	Property Activity	Unaudited
Eurocontrol, S.A.	Spain	80%	Layar, S.A and Layar Real Reserva, S.A.	G.I.	Inpsection, Quality Control, Technical Consulting.	Acisa
Initec Plantas Industriales, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	PwC/Deloitte
Initec Infraestructuras, S.A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Chile Ltda.	Chile	100%	Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
ReciclAguilar, S.A.	Spain	80%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited

Técnicas Reunidas Gulf Ltd. – Saudi Arabia	Saudi Arabia	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	PwC/Deloitte
TR Engineering LLC – Oman	Oman	49%	Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Omán LLC	Oman	70%	Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Hellas, S.A. – Greece	Greece	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
Técnicas Reunidas Netherlands B.V.	Netherlands	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
Técnicas Reunidas de Construcao Unip. LDA – Portugal	Portugal	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Australia Pty Ltd	Australia	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
Técnicas Reunidas TEC – Bolivia	Bolivia	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas ReunidasR RUP INSAAT TAAHHÜT Limited Sirketi	Turkey	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Dufi CCGT Kft	Hungary	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	Unaudited
TR Canada Inc	Canada	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
TR Saudi Arabia LLC	Saudi Arabia	100%	Técnicas Reunidas, S.A. / Técnicas Reunidas Proyectos Internacionales, S.A.	G.I.	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.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Mühendislik ve İnsaat A.S	Turkey	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
Técnicas Reunidas engineers India private limited (TREI)	India	100%	Técnicas Reunidas, S.A.	G.I.	Consultancy and assistance in international engineering projects	LUTHRA-LUTHRA
Tecreun República Dominicana, S.R.L.	Dominican Republic	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte

TR Perú Ingeniería y Construcción S.A.C.	Peru	100%	Técnicas Reunidas, S.A.	G.I.	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.	G.I.	Engineering Services	Unaudited
Técnicas Reunidas de Talara, S.A.C.	Peru	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Malaysia SDN.	Malaysia	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	PwC/Deloitte
TR Servicios S.R.L. de C.V.	Mexico	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	Unaudited
Técnicas Reunidas USA L.L.C.	United States	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
TR Louisiana L.L.C.	United States	100%	Técnicas Reunidas USA L.L.C.	G.I.	Engineering Services	Unaudited
Técnicas Reunidas Houston L.L.C.	United States	100%	Técnicas Reunidas USA L.L.C.	G.I.	Engineering Services	Unaudited
Heymo Ingeniería, S. A.	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	PwC/Deloitte
Técnicas Reunidas Ghana	Ghana	100%	Técnicas Reunidas Netherlands B.V.	G.I.	Engineering Services	Unaudited
Eurocontrol International Services, S.L.	Spain	80%	Eurocontrol, S.A.	G.I.	Engineering Services	Unaudited
Euromoody International Services, S.L.	Spain	80%	Eurocontrol, S.A.	G.I.	Engineering Services	Unaudited
Serviheymo	Spain	100%	Heymo Ingeniería, S. A.	G.I.	Engineering Services	PwC/Deloitte
Tecnicas Reunidas Canada E&C INC.	Canada	100%	Técnicas Reunidas, S.A. / Initec Plantas Industriales, S.A.	G.I.	Engineering Services	Unaudited
TR Sagemis	Italy	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
Tecnicas Reunidas UK	UK	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
TR Metalúrgica Chile	Chile	100%	Termotécnica,S.A.	G.I.	Engineering Services	PwC/Deloitte
Deportes Valdavia	Spain	100%	Técnicas Reunidas, S.A.	G.I.	Engineering Services	Unaudited
Valdavia Padel S.L.	Spain	100%	Deportes Valdavia, S.L.	G.I.	Engineering Services	Unaudited
Valdavia Gim S.L.	Spain	100%	Deportes Valdavia, S.L.	G.I.	Engineering Services	Unaudited

APPENDIX II

Associates included in the scope of consolidation – 2018

Corporate Name	Address	% Share of Nominal Amount	Shareholder Company	Consolidation method	Activity	Auditor
Empresarios Agrupados, A.I.E.	Spain	43.00%	Técnicas Reunidas, S.A. and TR Proyectos Internacionales, S.A.	By Eq.	Engineering Services	PwC/Deloitte
Empresarios Agrupados Internacional, S.A.	Spain	43.00%	Técnicas Reunidas, S.A. and TR Proyectos Internacionales, S.A.	By Eq.	Engineering Services	PwC/Deloitte
Ibérica del Espacio, S.A.	Spain	49.78%	Técnicas Reunidas, S.A. and TR Proyectos Internacionales, S.A.	By Eq.	Engineering Services	PwC/Deloitte
Proyectos Ebramex, S. de R.L. de C.V.	Mexico	33.33%	Técnicas Reunidas, S.A.	By Eq.	Engineering Services	Unaudited
Minatrico, S. de R.L. de C.V.	Mexico	33.33%	Técnicas Reunidas, S.A.	By Eq.	Engineering Services	Unaudited
Máster S.A. de ingeniería y Arquitectura	Spain	40.00%	Técnicas Reunidas, S.A.	By Eq.	Engineering Services	Unaudited

Associates included in the scope of consolidation – 2017

Corporate Name	Address	% Share of Nominal Amount	Shareholder Company	Consolidation method	Activity	Auditor
Empresarios Agrupados, A.I.E.	Spain	43.00%	Técnicas Reunidas, S.A. and TR Proyectos Internacionales, S.A.	By Eq.	Engineering Services	PwC/Deloitte
Empresarios Agrupados Internacional, S.A.	Spain	43.00%	Técnicas Reunidas, S.A. and TR Proyectos Internacionales, S.A.	By Eq.	Engineering Services	PwC/Deloitte
Ibérica del Espacio, S.A.	Spain	49.78%	Técnicas Reunidas, S.A. and TR Proyectos Internacionales, S.A.	By Eq.	Engineering Services	PwC/Deloitte
Proyectos Ebramex, S. de R.L. de C.V.	Mexico City	33.33%	Técnicas Reunidas, S.A.	By Eq.	Engineering Services	Unaudited
Minatrico, S. de R.L. de C.V.	Mexico City	33.33%	Técnicas Reunidas, S.A.	By Eq.	Engineering Services	Unaudited
Máster S.A. de ingeniería y Arquitectura	Barcelona	40.00%	Técnicas Reunidas, S.A.	By Eq.	Engineering Services	Unaudited

Appendix III

Joint operations included in the scope of consolidation – 2018

Name	Address	% Share of Nominal Amount	Joint venture partner entity	Consolidation method	Activity	Auditor
Construcción e Ingeniería FIM Ltda.	Chile	33.33%	Técnicas Reunidas Chile, S.A.	Proportional	Engineering Services and Project Execution	Unaudited
Construcción e Ingeniería FI Ltda.	Chile	50.00%	Técnicas Reunidas Chile, S.A.	Proportional	Engineering Services and Project Execution	Unaudited
TSGI Mühendislik İnşaat Limited Şirketi	Turkey	33.33%	Técnicas Reunidas, S.A.	Proportional	Engineering Services	PwC/Deloitte
TR Daewoo LLC	Oman	65.00%	Técnicas Reunidas, S.A.	Proportional	Engineering Services	Unaudited
TR Bapco	Bahrain	32.00%	Tr Saudia S.C LTD	Proportional	Engineering Services	Unaudited

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Joint operations included in the scope of consolidation – 2017

Name	Address	% Share of Nominal Amount	Joint venture partner entity	Consolidation method	Activity	Auditor
Construcción e Ingeniería FIM Ltda	Chile	33.33%	Técnicas Reunidas Chile, S.A.	Proportional	Engineering Services and Project Execution	Unaudited
Construcción e Ingeniería FI Ltda.	Chile	50%	Técnicas Reunidas Chile, S.A.	Proportional	Engineering Services and Project Execution	Unaudited
TSGI Mühendislik İnşaat Limited Şirketi	Turkey	33.33%	Técnicas Reunidas, S.A.	Proportional	Engineering services	Pwc/Deloitte

APPENDIX IV
Unincorporated temporary joint ventures, consortiums and permanent establishments in which the companies included in the scope of consolidation have shares – 2018

Entity name	Activity	% Share	Entity name	Activity	% Share
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 VOLGOGRADO	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. Multiple	Engineering Services and Project Execution	50%
TReunidas Branch Argelia	Engineering Services and Project Execution	100%	UTE TR/ASF. Cons.Aparc.Al	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 Op. Desalad	Engineering Services and Project Execution	100%
EP JORDANIA	Engineering Services and Project Execution	100%	UTE TR/Initec Infra Constru	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	50%
JV KUWAIT CONSORCIO	Engineering Services and Project Execution	50%	UTE TR/Duro F. CTCC Besós	Engineering Services and Project Execution	100%
TR FINLANDIA	Engineering Services and Project Execution	100%	UTE EVREN/INFRA.Jucar F1	Engineering Services and Project Execution	70%
UTE Geocart Catastro RD	Engineering Services and Project Execution	50%	UTE TR/GUEROLA C.TERMOSOLAR	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/IPI 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/IPI 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/IPI 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%
UTE TR RUP	Engineering Services and Project Execution	100%	TR FRANCE BRANCH	Engineering Services and Project Execution	100%

UTE TR YANBU REFINERY	Engineering Services and Project Execution	100%	TR KHABAROVSK BRANCH	Engineering Services and Project Execution	100%
UTE TR-IPI ABU DHABI SHAH	Engineering Services and Project Execution	100%	JV DARSAIT	Engineering Services and Project Execution	50%
UTE TR-IPI TANQUE MEJILLO	Engineering Services and Project Execution	100%	CONSORCIO TR/JJC PERÚ	Engineering Services and Project Execution	51%
UTE TR DUFI HUNGRIA	Engineering Services and Project Execution	100%	CONS MOTA ENGIL TRPIC	Engineering Services and Project Execution	50%
UTE PERLA	Engineering Services and Project Execution	100%	JV SOHAR	Engineering Services and Project Execution	50%
UTE VOLGOGRAD	Engineering Services and Project Execution	100%	TR QATAR	Engineering Services and Project Execution	100%
UTE INTEGRATED PROJECT	Engineering Services and Project Execution	100%	JV RAILWAY	Engineering Services and Project Execution	34%
UTE TR JRTP JAZAN	Engineering Services and Project Execution	100%	TRSA INDIA 33059	Engineering Services and Project Execution	100%
UTE TR TALARA	Engineering Services and Project Execution	100%	TRSA INDIA 33065	Engineering Services and Project Execution	100%

UTE TR OPTARA	Engineering Services and Project Execution	100%	TRSA India 33117	Engineering Services and Project Execution	100%
UTE STURGEON	Engineering Services and Project Execution	100%	TR Branch Azerbaijan	Engineering Services and Project Execution	100%
UTE TR INTEGRATED GAS	Engineering Services and Project Execution	100%	UTE TR HARADH GAS COMPRES	Engineering Services and Project Execution	30%
UTE FORT HILLS	Engineering Services and Project Execution	100%	UTE TR ADGAS	Engineering Services and Project Execution	15%
UTE TR MINATITLAN	Engineering Services and Project Execution	100%	UTE TR BU HASA	Engineering Services and Project Execution	15%
UTE TRISA/AST. P. EBRAMEX	Engineering Services and Project Execution	33%	TRD DUQM PROJECT	Engineering Services and Project Execution	65%
UTE TRISA/AST. P. MINATR.	Engineering Services and Project Execution	33%	UTE FAHDILI	Engineering Services and Project Execution	100%
UTE IGD	Engineering Services and Project Execution	100%	UTE HAIL	Engineering Services and Project Execution	100%
UTE TR ETO	Engineering Services and Project Execution	100%	UTE TR NAPHTHA RT	Engineering Services and Project Execution	100%

Appendix IV

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EP BANGLADESH	Engineering Services and Project Execution	100%	UTE TR/TREC OP.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%
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JV KUWAIT CONSORCIO	Engineering Services and Project Execution	50%	UTE TR/Duro F. CTCC Besós	Engineering Services and Project Execution	50%
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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 C.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/IPI 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%
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UTE TR/IPI TR POWER	Engineering Services and Project Execution	100%	TR OMAN BRANCH	Engineering Services and Project Execution	100%

CONSOLIDATED FINANCIAL STATEMENTS FOR TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2018

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%
UTE TR RUP	Engineering Services and Project Execution	100%	TR FRANCE BRANCH	Engineering Services and Project Execution	100%
UTE TR YANBU REFINERY	Engineering Services and Project Execution	100%	TR KHABAROVSK BRANCH	Engineering Services and Project Execution	100%
UTE TR-IPI ABU DHABI SHAH	Engineering Services and Project Execution	100%	JV DARSAIT	Engineering Services and Project Execution	50%
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UTE PERLA	Engineering Services and Project Execution	100%	JV SOHAR	Engineering Services and Project Execution	50%
UTE VOLGOGRAD	Engineering Services and Project Execution	100%	TR QATAR	Engineering Services and Project Execution	100%

UTE INTEGRATED PROJECT	Engineering Services and Project Execution	100%	JV RAILWAY	Engineering Services and Project Execution	34%
UTE TR JRTP JAZAN	Engineering Services and Project Execution	100%	TRSA INDIA 33059	Engineering Services and Project Execution	100%
UTE TR TALARA	Engineering Services and Project Execution	100%	TRSA INDIA 33065	Engineering Services and Project Execution	100%
UTE TR OPTARA	Engineering Services and Project Execution	100%			
UTE STURGEON	Engineering Services and Project Execution	100%			
UTE TR INTEGRATED GAS	Engineering Services and Project Execution	100%			
UTE FORT HILLS	Engineering Services and Project Execution	100%			
UTE TR MINATITLAN	Engineering Services and Project Execution	100%			
UTE TRISA/AST. P. EBRAMEX	Engineering Services and Project Execution	33%			
UTE TRISA/AST. P. MINATR.	Engineering Services and Project Execution	33%			

UTE IGD	Engineering Services and Project Execution	100%
UTE TR ETO	Engineering Services and Project Execution	100%
UTE FAHDILI	Engineering Services and Project Execution	100%
UTE HAIL	Engineering Services and Project Execution	100%
UTE TR NAPHTHA RT	Engineering Services and Project Execution	100%

CONSOLIDATED MANAGEMENT REPORT FOR 2018

Contents:

CONSOLIDATED MANAGEMENT REPORT FOR 2018

1. Business performance

2018 was a year of transition for both the sector and the Joint venture partner entity. At the sectoral level, there was a change in customers' propensity to invest, supported by a prolonged period of recovery, followed by a tightening and a subsequent stabilisation of oil prices that made it possible to generate greater budgets and accelerate investment decisions. However, the oil market is still suffering some effects resulting from the sector's crisis of recent years. Thus, the limitations on access to financing or the pursuit of cost-saving optimisation remain present in the industry's dynamics. That being said, the foundations for investment remain strong in the medium and long term based on good economic growth prospects, mainly from emerging economies, sustained demand and greater environmental requirements.

In the specific case of Técnicas Reunidas, 2018 was a year marked by large projects in their final construction phase and the launch of recently awarded projects. With respect to the projects in their final construction phase, they amounted to a total of over USD 7 billion, as they are large-scale and highly important projects carried out for leading customers in the sector located in key markets such as Malaysia, Turkey, Saudi Arabia and United Arab Emirates. In this phase of construction, the priority is the delivery of the plant in accordance with our customers' expectations.

With respect to the launch of projects, due to the described circumstances of the crisis, they have taken more time than expected. Furthermore, Técnicas Reunidas took the strategic decision to keep its fundamental engineering and project management capacities intact, despite the impact that the lower use of these resources could have on the Company's margins. The aggregate value of the projects launched amounted to over USD 8 billion, including complex and strategic projects that will be key for the Company's future performance.

In 2018, Técnicas Reunidas was awarded a new portfolio with a value of EUR 2.8 billion, managing to position itself among the main investments offered on a global level. Its diversified range of activities has allowed it to be present in works related to refinery, upstream (petroleum), natural gas treatment and energy generation. Once again, the proportion of recurrence in the customer base remained high (ADNOC and Gazprom), as did the successful incorporation of new recognised references (BAPCO and JPRC).

The fact that the most mature projects were in the mechanical completion phase and that a large portion of the portfolio was in the engineering phase explains the fall in the profit. Both phases have a lower accounting contribution in terms of sales and, nonetheless, in their final phases, the projects can impact on the profit/(loss) in accordance with the closing negotiations with customers and subcontractors. Thus, sales in 2018 fell 13% to EUR 4.396 billion. The Group's operating profit/(loss) was EUR 42 million. In general, the Group's profit/(loss) is conditioned because projects were not commenced in the areas of oil and gas in 2017 and because the launch of projects in 2018 was slower than expected, as well as by the high uncertainty regarding the capacity for recovery of overruns incurred in the final phases of some specific projects. In view of this, the Net Profit was EUR 14 million.

At the 2018 year-end, the Company's net cash flow was EUR 257 million. From the start of the crisis, the management of the financial position has been gaining importance in the sector from the viewpoint of the customers, the supply chain and the contractors. Having a sound financial position has become one of the Group's priorities to be able to meet liquidity needs across the life of the projects. Furthermore, Técnicas Reunidas' financial position allows it to select the highest investments made in the sector and is one of the factors valued by our customers.

At 31 December 2018, the Técnicas Reunidas workforce consisted of 8,971 employees, an adequate level of resources to execute the pending portfolio of projects in a satisfactory manner.

With respect to the share's stock market performance, as the other companies in the sector experienced, 2018 presented two distinguished periods. During the first nine months of the year, the value of Técnicas Reunidas increased by around 4%, supported by a 20% increase of Brent in the same period. This fact helped to restructure the customers' budgets and encourage investment again at a time when the short-term demand forecasts were growing and aligned with the market's supply level.

But in the last three months of the year, the downward revisions of global economic growth due to political tensions and risk of overproduction led to reduced projections of this rise in demand causing a 40% collapse of Brent. This collapse, along with the fear of deceleration, ended up polluting the market and more particularly the oil sector. Thus, the share price of Técnicas Reunidas ended the year with an accumulated loss of 17%, in line with the variation that its local benchmark index, Ibex 35, posted (-15%). Despite this, the oil services sector saw out the year with positive investor sentiment, learning of large investment plans in key markets for the Company.

With respect to shareholders' remuneration, due to the crisis that the sector has been experiencing in recent years, the resulting fall in profits that Técnicas Reunidas has experienced and the Company's objective of preserving its cash flow, the Company decided to reduce the figure to be distributed as dividends in 2018 in comparison with the amount distributed in the previous year. Thus, Técnicas Reunidas distributed a total of EUR 50 million as dividends charged to the net profit of 2017, representing a unit amount of EUR 0.9311 per share. The Company has not paid an interim dividend in 2018.

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

Oil and Gas

2018 was a year full of different events that made it necessary to follow the evolution of the oil and gas sector very closely. It was a year in which the price of crude oil suffered fluctuations marked by socio-political events, by the evolution of production and by the growth data on a global level. Some circumstances that were present in previous years, such as the limitations in the access to financing, remain present, but greater dynamism is starting to be shown in the industry as the level of oil prices has recovered over a more prolonged period. However, the threat of overproduction persists, creating a situation of uncertainty in the sector in the short term. In the second half of the year, the strong growth in shale production in the USA, the record levels of oil pumping achieved in countries such as Saudi Arabia and Russia, and the fact that several OPEC countries are exempt from the production agreements due to their complicated situation (Libya, Iran and Venezuela) warned of a potential imbalance in the supply of oil and generated doubts with regard to the effectiveness of the cut agreed in the last OPEC meeting of December 2018. Moreover, the worsening of the economic prospects in the final part of the year led to a downward revision of the last oil demand forecasts for the short term.

However, looking at a longer-term time frame, the perspectives of the main reference bodies envisage a sustained growth in demand for the next 20 years with the investment protagonism allocated to clean energies. Specifically, in its annual World Energy Outlook document for 2018, the International Energy Agency estimates a total investment of USD 60.042 trillion in energy infrastructure for the next 23 years, which would be an average annual investment of USD 2.61 trillion. In relation to the oil and gas sector, the International Energy Agency estimates a total investment of over USD 20.414 trillion for the 2018 to 2040 period, representing 34% of the estimated investment in global energy.

Técnicas Reunidas studies and analyses the market conditions of each moment in depth, identifying and selecting the opportunities that generate greater value for the continuity of its business. Currently, Técnicas Reunidas envisions some very positive prospects due to the strong investor cycle presented in the sector and the strengthening of its industrial position in recent years.

The opportunities that the main division of the Company that groups the oil, gas and petrochemistry activities offers are founded on: the growth of the demand in emerging economies, the optimisation of the profitability of the existing refineries, the adaptation of petroleum products to the environmental regulatory changes, the growing role of natural gas in the energy matrix at global level, the impact that the growing urbanisation of the population and the monitoring of emerging economies have on the demand for petrochemical products.

In 2018, TR was awarded four new refinery contracts with BAPCO, GazpromNeft, JPRC and a confidential customer, located in the markets of the Middle East, Russia, Jordan and South-East Asia, respectively. With this contracting, Técnicas Reunidas incorporates new clients and regions in its reference base.

In 2018, the income from this activity totalled EUR 3.717 billion and represented 84% of the total sales.

a) Refinery and Petrochemistry

- In December, Técnicas Reunidas, along with its partners Technip and Samsung in a Joint Venture (JV) created for that purpose, received a USD 4.2 billion contract from Bahrain Petroleum Company (BAPCO) for the BAPCO Modernisation Programme (BMP). The project is located on the east coast of Bahrain and entails the extension of the Sitra oil refinery's capacity from 267,000 to 360,000 barrels per day, the improvement of energy efficiency, the monetisation of the bottom of the barrel and the improvement of products for the fulfilment of the environmental regulations.

  The project will be executed by means of an engineering, procurement, construction and commissioning (EPCC) turnkey contract and is scheduled to be completed in 2022. It includes the following main units: residue hydrocracking unit, conventional hydrocracker unit, hydrodesulfurization unit, crude distillation unit, vacuum distillation unit, saturated gas plant, sulphur recovery unit, amine recovery unit, gas removal unit, sulphur handling facilities and sulphur solidification unit. The auxiliary units and systems are also part of the scope:

  The award of this BMP project is based on the experience of the partners in this JV, acquired over many years in Bahrain and in the region. The scope of the project for Técnicas Reunidas, whose share in the total value of the contract is USD 1.35 billion, will be the detail engineering of some of the most complex units, such as the crude unit, the vacuum unit, the hydrocracker unit, saturated gas plants 1 and 2, and other auxiliary facilities. It will also participate directly in the joint management of the equipment and materials procurement activities and the construction of the whole project.

  BAPCO, owned by the government of Bahrain, participates in the oil industry, which includes refinery, distribution of oil products and natural gas, export of oil and refined products. The Company has 264,000 barrels per day refinery, storage facilities for over 14 million barrels, a marketing terminal and a marine terminal for its petroleum products.

- GazpromNeft tasked Técnicas Reunidas with the design (“FEED”) of the “Advanced Refining Complex” of the refinery in Moscow, Russia. The scope of the project includes the design of complex conversion units, in which Técnicas Reunidas has great experience. It gives Técnicas Reunidas great satisfaction to participate in this project from the outset to be able to develop the design of the most efficient path for its customer, Gazprom Neft. Técnicas Reunidas aims to participate in the following phases of this project.

- Jordan Petroleum Refinery Company (JPRC) awarded Técnicas Reunidas a “FEED” project for the expansion of the Zarqa refinery in Jordan. From a technical viewpoint, advanced technical units will be designed, such as the “slurry hydrocracker”. From a strategic viewpoint, Técnicas Reunidas will be in close contact with the customer from the initial phase of the project, from the basic engineering viability study, as well advising on the financial structure and the definition of the future strategy for the execution of the project. Técnicas Reunidas’ aim is to make this project an EPC (Engineering, Procurement, Construction) contract.

- Técnicas Reunidas commenced the execution of “FEED” services for a refinery in South-East Asia. This project represents a new step for growth in this key region, where the Company has several investments. Técnicas Reunidas will participate in the EPC contract tender for this project.

With respect to the other projects comprising the portfolio, they are in the execution phase progressing at their normal speed. At the year-end, the projects that contributed most to the division’s turnover, as well as to the Group as a whole, were the Al Zour refinery processing units project for KNPC in Kuwait, the Talara refinery modernisation project for Petroperú in Peru, the RAPID refinery complex for Petronas in Malaysia and the clean fuel project of the Tas Tanura refinery for Saudi Aramco in Saudi Arabia.

2018 was not an intensive year in terms of project delivery. The Lake Charles petrochemistry projects for SASOL in Louisiana, USA, and the expansion project of the Heroya Industrial Park for Yara in Porsgrunn, Norway, were the main works completed and delivered by the division, meeting the deadline and the expected specifications. However, in 2019, the delivery of large projects such as those of Petronas in Indonesia, those of Jazan for Aramco and the Star Refinery for Socar in Turkey are scheduled.

a) Natural gas and upstream

Unlike the previous year, 2018 again presented great opportunities in the natural gas and upstream market. This is a good indicator of the sector's reactivation and the change of investor sentiment on the part of the customers. Técnicas Reunidas managed to position itself in those regions where investments are based on local demand and on the zone's economic growth prospects. Thus, the Company received several new contracts in the United Arab Emirates, a region that suspended its investment decisions in the previous years of crisis and, once it resumed its growth strategy, wanted to have the experience of Técnicas Reunidas to manage large-scale projects in the area of natural gas and upstream. Thus, the national company ADNOC, a customer that Técnicas Reunidas has worked with on several occasions in the past, awarded the following projects:

- In September, ADNOC LNG awarded Técnicas Reunidas a contract for the design, supply and construction of a 245 MMSCFD gas processing plant on Das Island in the United Arab Emirates. ADNOC LNG is a company owned by ADNOC (70%), Mitsui & Co (15%), BP (10%) and Total (5%).

  The contract was awarded under the turnkey modality to the consortium formed by Técnicas Reunidas and Target Engineering and Construction, subsidiary of Arabtec Holding (EAU), for an approximate amount of USD 860 million and a duration of 54 months, and includes the option to extend the scope by another USD 250 million. Técnicas Reunidas is the consortium leader with a 50% share.

  Its scope includes engineering, supply of equipment and materials, construction, installation, trials and commissioning of compression, drying and gas treatment units, as well as energy generation and other auxiliary services. The new facilities will serve to send low-pressure gas from the offshore fields from Das Island to Habshan, in the continental part of the United Arab Emirates.

  The project, the second one executed by the Company on the Persian Gulf Island, forms part of the Integrated Gas Development programme for increased offshore gas production. Since 2015, Técnicas Reunidas has participated in this programme through the contract awarded by ADNOC Gas Processing for the construction of gas treatment facilities in Habshan.

  This new commission, the sixth of this nature in the Emirates, shows the determination to continue our activities in the offshore sector and the Group's commitment to participate in energy developments in the United Arab Emirates.

- In November, ADNOC ONSHORE issued the Letter of Award (LOA) to Técnicas Reunidas for the Engineering, Procurement and Construction of the Bu Hasa Integrated Field Development project in the United Arab Emirates. The turnkey contract amounts to an approximate value of USD 1.44 billion and it will have an execution period of 39 months.

  The scope of the contract will include the engineering, supply of equipment and materials, construction, pre-commissioning, commissioning, trials and start-up of a new crude oil collection system, new gas compression facilities and new water injection network, as well as the modernisation of the water treatment facilities of the existing plant.

During 2018, the projects that contributed most to the division's sales were the Fadhili and Haradh gas project, both for Saudi Aramco in Saudi Arabia, the gas train no. 5 (GT5) project for KNPC in Kuwait and the GASCO project for the consortium formed by ADNOC/Total/Shell in the UAE.

Power

The power generation division has not followed the same trend as the oil and gas division, despite the fact that, initially, the economic crisis affected it to a greater extent. As a sector with fewer entry barriers from the technological point of view, where there is greater local competition and where customers encounter more restricted access to financing, it is understandable that volatility is higher at procurement level in this division. Nevertheless, several years ago, Técnicas Reunidas identified that the growth strategy of this division was outside its domestic market and focused its marketing efforts on international positioning.

The activities of Técnicas Reunidas in the power generation division cover a wide variety of technological knowledge, allowing it to design and build combined cycle power plants, open-to-combined cycle transformation plants and coal, cogeneration or biomass plants. The company is currently pursuing opportunities in key markets such as Latin America, Europe and the Middle East. Large investment plans are expected to be materialised in these regions in 2019 and in markets that are already traditional for the Company. The marketing efforts made during the crisis years are paying off.

Revenues from this division reached € 578 million, representing 13.15% of the group's total sales, and the projects that contributed most to this figure were the biomass plant for MGT Teeside in England, the Tierra Mojada combined cycle plant for Fisterra Energy in Mexico and Turow coal plant for Polska Grupa Eneretyczna Turow in Poland.

In 2018, the Company carried out works at the Kilpilahti electrical power plant for Neste/Veolia/Borealis in Finland, where it successfully met all the required specifications.
In addition, Técnicas Reunidas also has extensive experience in power generation with nuclear plants. In its latest annual report, (World Energy Outlook 2018), the International Energy Agency predicts that the nuclear power production will increase annually by 1.5% on average, from 2,637 TWh production in 2017 to 3,726 TWh in 2040. This growth is associated with a predicted investment of USD 1,200 trillion in new plants and the modernisation of existing plants spread over next 23 years, therefore representing 2% of the energy sector's total estimated investment. We are gradually beginning to observe the normalisation of the investment phase in this type of power generation.

In FY 2018, Técnicas Reunidas, through its subsidiary Empresarios Agrupados, continued to provide engineering services to support the operation of nuclear power plants in operation in Spain as well as several nuclear projects outside Spain:

- Support at the Almaraz 1 and 2 and Trillo nuclear plants, implementing design modifications, radiation protection services, operational support services, supply management, providing support services in refuelling operations, post-Fukushima accident analysis, etc. in accordance with the requirements of the Spanish Nuclear Safety Council (CSN).
- Filtered containment venting project at Almaraz 1 and 2 nuclear power plants.
- Filtered containment venting project at Trillo nuclear power plant.
- Miscellaneous support services at Cofrentes nuclear power plant
- Assorted works at Ascó and Vandellós 2 nuclear power plants
- Engineering of the Centralised Temporary Storage facilities for high activity radioactive waste to be built in Villar de Cañas, Cuenca, in a consortium with Westinghouse, for ENRESA.
- Preparation of the project for the Individual Temporary Storage facility at Almaraz nuclear power plant.
- Radiological calculations for the Individual Temporary Storage facility of the Cofrentes nuclear power plant.
- Support to ENRESA in supervising the dismantling works at José Cabrera nuclear power plant.
- Engineering for improving the electrical systems of the Krsko Nuclear Power Plant in Slovenia.
- Engineering services for dismantling the reactor at the Ispra Research Centre (Italy) of the EC, leading a consortium with Tractebel and a local contractor
- Monitoring the status of the nuclear Island buildings at Khemelnisky nuclear power plant in Ukraine
- Architect Engineering services for ITER, a major fusion reactor facility located in Cadarache, France, through the ENGAGE consortium formed by Atkins, Assystem, EGIS and Empresarios Agrupados.
- Qualification of instrumentation of the safety systems at the ITER fusion reactor in Cadarache, France.
- Review of the conceptual design and support for the analysis of safety piping and other tritium processing facilities for ITER, in Cadarache, France
- Thermo-hydraulic design of the TCWS cooling system at ITER

- Tritium permeability simulation contract for ITER
- Engineering services for EURATOM at the DONES facility, under the EUROfusion contract, for a fusion materials research facility in Granada (Spain)
- Assistance to the owner of the MYRRHA research reactor project in Belgium
- Engineering services for the design of the "Target" system of the European Spallation Source, ESS, in Lund (Sweden)
- Engineering and architectural services for CERN in Geneva (Switzerland)
- Management of the PMU (Project Management Unit) of the EBRD (European Bank for Reconstruction and Development) for the decommissioning of Units 1 to 4 (VVER-440 V230) of the Kozloduy nuclear power plant and construction of a radioactive waste storage facility in Bulgaria. In consortium with Nuvia.
- Basic design of a solid radioactive waste processing building and licensing of a low- and medium-level radioactive waste storage facility in the Chernobyl exclusion zone in Ukraine.
- Support to the Regulatory body reviewing the application for the use of a site for a planned nuclear power plant in Jordan.
- Civil engineering services provided to Hinkley Point C nuclear power plant for EDF in Great Britain, through EGIS
- Piping analysis services at Mohovce 3 nuclear plant in Slovakia, for UVJ
- Engineering services for the design of the turbine systems of the following VVER-type plants for Rosatom: Akkuyu NPP in Turkey, Paks II NPP in Hungary and El Dabaa NPP in Egypt, for GE Power.
- Engineering services for the design of turbine systems of the Hitachi ABWR plant at Wylfa in the UK, for GE Power
- Human Factors Engineering for the ABWR plant at Wylfa (UK) for Hitachi.

Additionally, in 2018, through its Heat Transfer Division, Técnicas Reunidas has participated in the following nuclear project:

- For the containment spray heat exchanger system of Unit 1 of the Almaraz NPP, a mechanical engineering study was conducted to ensure its integrity, along with the change of the three seals during the refuelling stop period.

2. Research and Development Activities.

Técnicas Reunidas maintains a firm ongoing commitment to R&D, via the generation of knowledge, development of new technologies, and strengthening and diversifying existing technologies towards new areas and applications.

The strategic research lines of Técnicas Reunidas are aimed at the areas of raw materials (recovery of metals and non-metals) and the environment (recycling of industrial and agricultural waste and water treatment).

At the José Lladó Technology Centre, one of the most advanced in Spain, featuring more than 70 graduate and PhD staff from different disciplines, research and technological development projects are conducted, specifically focused on the Company’s technological needs. In addition, the centre provides technological and technical assistance services, collaborates with the transfer of research findings between various public research centres, technology centres and Técnicas Reunidas, and promotes and participates in the development of cooperative research between companies.

The Technology Centre is a place that nurtures R&D+I, acting as a driving force for the transfer and dissemination of technology, where the client is at the centre of activity and innovation provides the lever for competitiveness. The Technology Centre facilitates and boosts The Company’s participation in R&D processes and activities.

The Technology Centre, with more than 5000 m^2 of state-of-the-art facilities and equipment, allows activities to be conducted at all levels, from the laboratory to the pilot plant, as well as carrying out demonstration plants for the developed technologies. It also has the capability to carry out basic or advanced engineering design for the selected option, completing the whole R&D+I value chain, from idea to industrial implementation of the developed technology.

R&D spending in 2018 exceeded €4 million while maintaining the R&D investment policy.

During 2018, Técnicas Reunidas has participated in the following projects both nationally and at European level, individually or integrated into strategic consortiums:

- The European **BUTANEXT** project, under the European Commission's H2020 programme, in which TR is developing, with a budget of €0.92 million, an innovative lignocellulosic biomass pre-treatment process for the production of biobutanol.
- The domestic **3R2020** project, as part of the CIEN program sponsored by the CDTI, where TR participates in the development of hydrometallurgical processes for the recovery of metals from high metal content industrial and urban waste streams. The budget amounts to €1.5 million.
- The domestic **ESTEFI** project, as part of the CIEN program sponsored by the CDTI, in which TR participates in the development of power storage technology based on nickel-zinc batteries for use in intermodal transport networks with a budget of €1.96 million.
- The **LIGNOPRIZED** project, as part of the CIEN program sponsored by the CDTI, where TR participates with a €3.3 million budget, developing processes for the recovery of lignin from different sources (Kraft and Klason) for obtaining high value-added products and applications.
- The European **INT-MET** project, under the European Commission's H2020 programme, in which TR is involved with a budget of €0.71 million for the development of processes for obtaining Zn, Ag, Pb and high added-value metals from low-grade mineral concentrates or polymetallic nodules.
- The Spanish **MONACITE** project, as part of the PID program sponsored by the CDTI, with a budget of €1.53 million for the development of hydrometallurgical processes for extracting rare earths from monazites.
- The Spanish PUREPHOS project, as part of the PID program sponsored by the CDTI, with a budget of €0.999 million, for developing new phosphoric acid purification technologies from non-conventional mineral raw materials.
- The domestic **VIMAC** project, as part of the PID program sponsored by the CDTI, with a budget of €0.946 million, for the development if technology for the complete valorisation of complex minerals and maximum retrieval of economic value from of the metal present in those minerals.

With the development of these R&D projects, Técnicas Reunidas aims to increase its number of proprietary technologies.

As a result of its R&D investments, Técnicas Reunidas has developed propriety and industrially-developed technologies, including **ZINCEX™** for the recovery of Zn and **ECOLEAD™** for the recovery of lead and silver, in addition to developing the following technologies in recent years:

- **LIP4CAT™** calcine leaching technology and **DATMOS™** sulphide leaching technology. These two new technologies will allow new raw materials to be processed with the application of the **ZINCEX™** solvent extraction technology, therefore increasing potential business volumes.
- **HALOMET™** treatment technology for processing municipal incineration waste to recover Zn and other metals.
- **PHOS4LIFE™** technical-grade phosphoric acid production technology from the ash of wastewater sludge.
- **WALEVA™** technology for production of levulinic acid from biomass waste from different sources.

There is currently a portfolio of business opportunities for the industrial implementation of these technologies in the coming years.

3. Financial figures.

The Group draws up its financial statements under the International Financial Reporting Standards (IFRS).

In FY 2018, the Group's Net Sales totalled €4,396 million, 13% down on the previous year, due to the fact that the more mature projects were at the mechanical completion stage while most of the portfolio projects were at the engineering phase. Both phases have a lower accounting impact in terms of sales. Operating Income was €42 million, representing 1% of net sales, with lower profitability compared to last year mainly due to the circumstances described above, related to the delay in the start of some new projects and cost overruns of specific projects in their final stages with high uncertainty about their capacity for recovery. Profit after tax totalled €14 million.

4. 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%
Ariel Investment, LLC	Direct	3.01%

5. Restrictions on voting rights.
In accordance with Article 16 of the Articles of Association at least 50 shares must be held to attend General Meetings.

6. Shareholder agreements.
There are no agreements of this type.

7. Rules governing the appointment and removal of the members Board members and amendments to the Company's 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 Board members' Regulations govern the appointment and removal of the directors of Técnicas Reunidas, stipulating that:

1. Directors will be appointed by the Nomination and Remuneration Committee, the General Shareholders Meeting or by the Board of Directors in accordance with the Spanish Corporate Enterprises Act.

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

3. In order to fill a position of independent director, the Board of Directors may not propose or appoint 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. Directors will be appointed for terms of four (4) years, notwithstanding the possibility that they may be removed early by the General Shareholders Meeting. They may be re-elected one or more times for equal terms at the end of their mandate.

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

6. Directors hold their positions at the disposal Board members and, if the board considers it appropriate, they 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 are they in any of the cases of incompatibility or prohibition provided by law
   - When they receive any serious reprimand from the Board of Directors for failing to have carried out their duty 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).

8. Powers of the members Board members 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 Corporate Enterprises Act and is the maximum decision-taking body at the Company, except with regard 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 authorisation 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 staff remuneration.

9. 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 a takeover bid.

No agreements of this type exist.

10. 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 a 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 €5,957 thousand.

11. Average period of payment to suppliers.

The average period of payment is as follows:

	2018	2017
	Days	Days
Average payment period to suppliers	70	70
Ratio of payments made	65	72
Ratio of transactions pending payment	100	61

Total payments made	3,682,087
Total payments pending	696,708

The Group is meeting the legally-established deadlines with minor delays, due to invoices that are not officially compliant under the contract, failure to receive bank guarantees or meeting other obligations of suppliers under the service contract or order signed, therefore incurring slight delays in payment.

12. Material events after the balance sheet date.

In January 2019 Técnicas Reunidas after the end of the year, announced several awards in the Power Generation and Petrochemical divisions, with an aggregate value close to $1 billion:

- Técnicas Reunidas was awarded, as part of a consortium with a confidential partner, the tender for the execution of a combined cycle plant for a confidential client in the Middle East. The value for Técnicas Reunidas in this project amounts to more than $350 million. Notification for the partial commencement of the works was received in 2019 and the order for the final launch of the project is expected in the first half of 2019. The project will be executed in 53 months.
- In addition, the Power and Water Division of Técnicas Reunidas was awarded a contract for another combined cycle plant in November 2018, worth over $550 million. The client is confidential. The plant, with a capacity exceeding 1,000 MW, will use the latest gas turbine generation technology. Financial closure is expected by mid-2019. The duration of a project of this type is usually 36 months.
- In the petrochemical sector, last November the Abu Dhabi National Oil Company (ADNOC) and Cepsa, its partner in the project, selected Técnicas Reunidas for the front-end engineering design of a world-class linear alkyl benzene (LAB) plant at the Ruwais Derivatives Park. This project will be the first unit to be developed within ADNOC's Downstream investment program in Ruwais, with an announced a total investment of $45 billion. LAB is a raw material used in the manufacture of biodegradable domestic and industrial detergents, and in the production of household cleaning and detergents, among other products. The Front End Engineering Design (FEED) contract that will be executed by Técnicas Reunidas, helps produce the advanced definition of the project's scope, budget and schedule, as well as identifying potential risks. The duration of the project will be 12 months. This award supports the Company's strategy of offering value-added services in technologies where Técnicas Reunidas has proven know-how and experience. Técnicas Reunidas has carried out projects using the same LAB technology in Spain, China and the Middle East.
- Finally, in February 2018, Técnicas Reunidas was selected to execute the EPC associated with a proposed refinery expansion in South East Asia. This is the second project in this region awarded to Técnicas Reunidas in recent years.

13. Non-financial information statements

13.1 Business model

13.1.1 Description of the business model

The Técnicas Reunidas Group (TR) 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, commissioning and training.

TR with its engineering services activity, has a solid positioning in the value chain of the oil, gas, energy, fertilisers, hydrometallurgy, water and infrastructure industries.

The Company has a series of values that have been fully integrated into its business model, namely: knowledge, flexibility, innovation, credibility, customer orientation and quality. These values show TR’s commitment to the development of its business activities.

13.1.2 Organisation and structure

Appendices I and II contain the corporate structure of the Company.

13.1.3 Business Areas

Técnicas Reunidas, as part of its engineering and construction services activities, operates in various business areas, mainly in the fields of refining, gas and energy:

Oil and natural gas: the Oil and Natural Gas area provides management engineering, procurement, construction and commissioning services for facilities throughout the entire oil and gas value chain. In addition, the Company has experience with its own basic designs of certain units of these facilities and projects, facilitating the verification of their functionality and operability and contributes to obtaining greater efficiency, ensuring the adaptation of new technologies to its working methods.

Power and water: the Power and Water area provides engineering and construction services, both at industrial power facilities, and in a variety of water management applications (including desalination plants). The Company's experience ranges from conducting feasibility or basic and conceptual engineering studies to the complete implementation of large-scale and complex turnkey projects.

Other industries: this division carries out several activities, including ecology, ports and coasts, hydrometallurgy and fertiliser projects. It also conducts its own developments in industrial processes and technologies for different purposes such as, fertiliser production or recovery of metals.

The diversification of business areas allows for a well-distributed project portfolio.

This commitment to segmentation and innovation has enabled the Company to implement projects of different scopes in multiple regions, including those related to conceptual studies, basic engineering, FEED, PMC, EPC or LSTK, among others.

13.1.4 Business environment and markets

Técnicas Reunidas operates in a constantly changing environment, marked by rising energy demand in emerging countries, continuous adaptation to new environmental standards and the evolving needs of refineries towards more complex and more profitable configurations.

In turn, this work context is increasingly demanding, due to increasingly stricter environmental standards, the development of new technologies and a growing competition from Asia. In this regard, Técnicas Reunidas takes on increasingly complex projects, highly demanding in terms of technical specifications, deadlines, scope of work and performance conditions.

Diversification by product and geographic area allows Técnicas Reunidas to address new opportunities that may arise in connection with its activities.

In 2018, market conditions have improved compared to the previous four years. Several global investment plans have been approved, especially in gas-related investments (required by the petrochemical sector and new investments in power generation plants) and also in the refining and petrochemical sectors.

International organisations like the International Energy Agency and OPEC and relevant operators including BP and Exxon Mobil conclude that global demand and energy consumption will continue to grow in the long term, meaning that the Oil and Gas sector will continue to play a very significant role in this growth.

To supply a growing demand for energy, investments must be made in oil, gas and power generation, where Técnicas Reunidas is well-positioned and has the credentials demanded by investors and proven over nearly sixty years of worldwide experience and in particular, in regions where most of the investments are likely to be made.

LIST OF MARKETS WHERE TÉCNICAS REUNIDAS OPERATES

13.1.5 Factors and trends that may affect the Company’s evolution

Apart from market developments, the Company may be affected by factors related to other areas of its business. Therefore, Técnicas Reunidas detects and analyses emerging factors that could have an impact on its management model in order to take action in this regard and adapt its business strategy.

	FINANCIAL ENVIRONMENT	OPERATING ENVIRONMENT	SAFETY REQUIREMENTS	ENVIRONMENTAL REQUIREMENTS
TRENDS	Contracting and execution models that spread customer chargers (milestone billing rather than progress payments, reduction in prepayments, delays in resolving claims). Increased tax burden from governments to offset deficits. Volatility of certain currencies. Increased perception of risk by financial institutions with regard to the engineering sector.	Uncertainty regarding the evolution of oil prices, with knock-on effect for investment decisions and execution of projects. Habitual use by of turnkey contracts by clients, transferring greater risks to the contractor. Increased competition in turnkey projects. Increased client litigation. New demands from clients in the execution structure of projects (e.g.: joint ventures or revamping). Postponement of final stages of the project due to critical negotiations with clients and suppliers.	Adaptation to occupational safety requirements established by the countries where construction projects are carried out. Increased demand from clients regarding the qualifications and requirements of onsite personnel with health and safety responsibilities. Need for more practical works-oriented training programs. Incorporation of new technologies for improved performance and monitoring of safety and health projects.	Growing concern from customers regarding the environmental and social requirements of projects. Stricter environmental and social requirements from entities such as customers, World Bank, financial institutions or accredited certification bodies. Audits by financial institutions with increasingly stringent social and environmental requirements.

HOW IS THE COMPANY PREPARED?	Increase in available lines of financing. Customer and supplier management (collection and payment periods, discounts, confirming). Development of policies for allocation of profits to the countries where they are generated (BEPs). Currency hedging policy by using forwards. Development of a highly diversified pool of banks, with greater presence of local banks.	Geographic and product diversification. Experience in sustainable markets. Closer integration with customers from the initial phase onwards. Capacity for managing complex projects. Consolidated know-how and work procedures. Knowledge of suppliers and collaboration with relevant suppliers and subcontractors. Alliances with competitors for specific projects. Leverage based on proprietary technologies. Strengthening of legal team and involvement in the various project implementation stages.	Implementation of a Compliance System that covers, among others, environmental, health and occupational safety risks (HSE). Training in international health and safety standards aimed at project managers. Stronger collaboration between human resources and the departments involved in the construction phases. Acquisition of specific software and migration of periodic reports. Organisation of meetings with critical suppliers to discuss safety issues.	Strengthening the system for evaluating the social and environmental compliance of local suppliers. Conducting internal audits on environmental and social matters. Identification and monitoring of environmental risks and opportunities

	SUPPLY CHAIN AND OUTSOURCING	INNOVATION AND NEW TECHNOLOGIES	GOVERNMENT AND CSR	HUMAN RESOURCES
TRENDS	Increased the importance of sharing processes and management techniques in the supply chain with multicultural and sector companies. Decline in demand, which can reduce the capacity and quality of the supplier market and lead to a growing financial risk linked to increased non-conformities in quality and supply delays. Volatility of commodities and currencies. Selection of competitive construction and assembly companies. Protectionism of companies towards local staff. Increased supplier litigation.	Importance of digitisation and the use of new technologies to increase efficiency, ensure swifter customer responses and reduce costs, among other reasons. Focus on raw materials and especially on certain critical or strategic raw materials for relevant sectors such as telecommunications, defence and aeronautics, and energy. Sustainability, environmental legislation, circular economy etc. as clear business opportunities for the development of technologies related to waste management. Reduction of greenhouse gas emissions in accordance with regulations governing nitric acid plants (NOx, N^2O). Improved recovery of effluents with high nitrate content in ammonium nitrate plants in order to minimise soil contamination risks. Establishing lines of collaboration with customers, partners, suppliers and subcontractors.	Increased disclosure demands for non-financial information. Stricter requirements from public administrations, customers and suppliers regarding regulatory compliance. Greater demand to publicly disclose the policies that promote diversity in corporate management bodies. Intensifying activity of corporate governance bodies and need to strengthen internal control and risk management systems. Need to ensure equitable treatment of shareholders and take the concerns of other stakeholders into consideration. Particular attention to CSR and sustainability-related matters.	Demand from customers for increasingly skilled human resources to master not only the technical aspects but also management, monitoring, safety and quality assurance skills. Consolidating the internationalisation of the business.

HOW IS THE COMPANY PREPARED?	Development of technological tools for supply chain management, global and adaptable for use by other Group companies in different locations. Strengthened presence in the supplier's workshops. Strengthening synergies report with greater focus on the supplier's financial situation. Implementation of historic material price indicators during the tender process, together with spot market correction factor. Maximising the use of insurance to minimise commodities volatility. Directing and controlling the activities of assembly and construction subcontractors, at micro-management levels where required. Expanding and updating the Company's worldwide database of subcontractors. Conducting technical and physical analyses to ensure subcontractors' abilities to perform construction works.	In-house developments in all areas of activity. Strategy in the field of digitisation to strengthen competitiveness, adapt to customer demands and optimise processes. Specialists in the management of R&D+i and know-how in the development areas. José Lladó Technology Centre with specialised skills and resources. Contact with suppliers of catalysts to implement treatments for minimising greenhouse gases in nitric acid plants. In-depth analysis of projects to plan their management throughout the implementation period. Introduction of virtual reality in project design and implementation.	Expanding CSR and sustainability actions both globally and in the projects implemented. Study of policies and agreements to strengthen diversity commitments. Strengthening the role of Board committees, mainly in non-financial reporting. Continuous development and adaptation of internal documents aligned with best practices of corporate governance. Supervision by the corporate governance bodies of tax and information security risks. Reinforcing communication channels with key stakeholders. Reporting and verifying CSR and sustainability information based on the most demanding standards. Development of a Criminal Compliance Management System the prevention of criminal risks. Adoption of new regulatory compliance policies.	Management training, focusing on risks and opportunities and developing skills and abilities. Special attention to motivation, monitoring and innovation. Globalisation of Human Resources management hand-in-hand with the departments concerned. Multi-country management: adapting internal policies to local labour and tax regulations as well as the local culture through direct management of expatriate employees from their destination countries. Development of tools to continuously analyse the labour market and locate availability of highly-qualified professionals. Establishment of internal staff rotation policy when required. Allocation of key personnel during the implementation phase of the project design. Onsite presence of design staff at works to adapt the design to specific country and customer needs.

13.1.6 Objectives and strategy

TR's strategy is structured around four essential pillars: methodology, diversification, quality and safety.

a. Methodology

The methodology is based on the development, systemisation and proper use of all the know-how that TR has acquired since 1960 executing projects around the world. This commitment to methodology allows the efficiency of work processes to be optimised and guaranteed. Essential components of this pillar are excellent human talent at Técnicas Reunidas, with highly qualified professionals, and innovation that forms part of TR's DNA.

b. Diversification

TR has a highly diversified portfolio of customers, products and geographical areas. In turn, the Company has customers of recognised prestige who assist in consolidating its presence in the market and their business is highly recurring.

c. Quality

TR's emphasis on the quality of all its processes (and those of its suppliers and subcontractors) guarantees the execution of every project in accordance with customer's needs and requirements.

d. Safety

TR fosters the creation of a specific corporate culture in occupational health and safety, introducing training processes for staff and encouraging their participation in prevention efforts and improving working conditions, promoting shared responsibility at various levels of the organisation.

TR's annual objectives are established at department level. This allows objectives to be adapted to the Company's strategy while at the same time including the specific needs of each areas. As a result, the objectives are defined ad hoc, which facilitates both their adaptation to each specific case and their traceability and comparability. The objectives established by Técnicas Reunidas for each area are detailed below:

General Secretariat Objectives	- Adoption of a new remuneration policy for Directors. - Planning and developing the activities of delegated committees Board members through the Delegated Committee Regulations. - Adjustment by the Company to the new measures introduces by Spanish Law 11/2018, of 28 December, amending Commercial Code, the consolidated text of the Spanish Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of 2 July, and Spanish Law 22/2015, of 20 July, on Auditing (*Ley de Auditoría de Cuentas*), concerning non-financial information and diversity. - Development of corporate policies such as the Selection and Diversity Policies or the Shareholder Relations Policy. - Updates to the Articles of Association and the Regulations Board members. - Implementation of the actions proposed in the Board's Self-Assessment Report.
HR Objectives	- Globalisation of the Central Employee tools.
Environmental Objectives	- Implementation of Social Log for projects that require it. - Analysis of environmental service providers hired by TR, for example, waste management firms. - Tracking the Company's Carbon Footprint to adopt measures to comply with emission reductions by 2030.
Innovation Objectives	- Commissioning of the Pb and Ag production plant with ECOLEADTM technology for the Company American Zinc Products (AZP) in the United States. - Commissioning of the Zn production plant with ZINCEXTM technology for the Company American Zinc Products (AZP) in the United States. - Expanding the production capacity of the Zn plant with ZINCEXTM technology for the DOWA Company in Japan. - Marketing launch of new PHOS4LIFETM, WALEVATM, HALOMETTM, LIP4CATTM and DATMOSTM technologies. - Incorporation of N2O greenhouse gas abatement technologies with efficiency exceeding 90%.
Financial Objectives	- Development of a plan to increase the liquidity lines and credit guarantees. - Restructuring financing to seek terms exceeding three years.

Procurement Objectives	- Training process aimed at base level of departments to ensure the dissemination of knowledge at this level. - Development of the Innova digitisation project; an initiative that seeks to optimise processes through the use of technology. - Creation of a new management profile within the organisation to improve information and monitoring of deliveries and purchases in the final stages of projects.
Construction Objectives	- Implementation of E-sam in all projects. - Expansion of e-Supplier functionalities. - Sewa Hamriyah CCPP IPP project – Hamriyah, Sharjah, UAE.
HSE Objectives	- Completing the implementation of an application for digitising all HSE-related data in works. - Improved incident investigation methodology at works by standardising processes and training. - Transition to new ISO 45001 health and safety regulations. - Expansion of actions in the "*Health and Welfare*" area. - Inclusion of a human resource with a social profile in all HSE worksite teams. - Implementing a mobile application to log onsite observations.
Regulatory Compliance Unit Objectives	- Completion of deployment of the Criminal Compliance Management System in most significant subsidiaries. - Conclusion of the criminal risk reassessment launched in FY 2018. - Identification of persons occupying especially exposed positions, allowing a training structure to be developed for preparing specific training content. - Knowledge, reassessment and prioritisation of the criminal risks that threaten the organisation based on the creation of a risk and control matrix. - Completing the development of the Whistleblower Channel management tool.
Social Objectives	- Ensuring high percentage of local procurement and outsourcing. - Collaboration with a high number of social action organisations. - Carrying out social action initiatives during the execution of projects.

13.2 Risk factors (non-financial) associated with the business

Técnicas Reunidas has tools and procedures that help it identify, prevent, minimise and manage the risks associated with its activity.

The Company's comprehensive methodological framework for managing key risks covers all areas and projects.

Through this framework a catalogue of key risks is prepared, as identified based on the COSO II methodology.

To manage these risks, Técnicas Reunidas has developed various procedures and management policies, including the following:

- Procedures related to the nature of the projects, such as careful selection of projects, policies for diversifying geopolitical risks, policies for maintaining the technical capability necessary to implement projects, policies for sharing project risks with third parties, maintenance of insurance cover and contracting methods that ensure the quality of suppliers, etc.
- Procedures related to the financial management of projects: management of foreign exchange risk, liquidity, tax risks and technical contingencies.
- Procedures related to Health and Safety Management Systems.

  The Company's main operating risks are listed below, including non-financial areas such as environment, health and safety, personnel and reputation. The main operating risks and the management mechanisms available to TR are set out below.

Risk	Description	Main risk management and mitigation mechanisms
Changes in cost estimates on projects	Several factors may influence a change in project cost estimates in turnkey projects (the complete price is closed at the start while execution costs may change), such as the volatility of raw material prices, changes in project scope, performance by construction and assembly subcontractors on time and with required quality, litigation by customers or suppliers or weather conditions, among others. The assessment of all these factors implies a high level of judgement and estimates.	- Development of new contracting methods to mitigate risks. - Inclusion of indemnity clauses in contracts with suppliers and subcontractors. - Intensive acquisition, during the first months of implementation, of equipment that is both critical and very sensitive to the price of certain raw materials. - Use of derivatives that allow the acquisition of certain essential raw materials and equipment in instalments. - Distribution of the execution of work among several subcontractors and including subcontractors as project partners. - Increased supervision of construction and assembly subcontractors. - Including contingencies for deviations in budgets. - Relying on opinions of external consultants in the preparation of estimates and judgements.
Changes in the price of crude oil.	The price of crude oil, in addition to other factors, affects the investment, award and execution decisions of the Group's customers and suppliers, competitors and shareholders. Recent drops in oil prices have pushed customers to provide worse payment terms and be more demanding in negotiating changes of scope and claims. The group's commercial activity is conditioned by the investment efforts of our customers.	- Predomination of 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). - Diversification of products and geographic areas. - Mitigation of negotiation risks by the early detection of those matters that may represent a change in the contractual price.
Execution of projects in multiple geographic areas.	TR's projects are carried out in multiple geographic areas, each of which have a different risk profile to mitigate: political and social tension, limited access locations, limited legal security, domestic content requirements etc. Performance of projects for the first time in a determined geographic area increases the risk of deviations in margins.	- Selection of projects based on a detailed analysis of the customer and the country and other matters such as the specific margins on the project and the risks involved. - Use of modular construction methods in locations with limited labour availability or where the site conditions allow for savings compared with other options. - Where possible, TR includes the resolution of disputes at courts or in arbitration in countries where it has prior experience. - Where possible, TR includes clauses that allow prices to be changed in the event of amendments to laws. - Flexibility to adapt to domestic content requirements.
Concentration in a low number of customers.	At certain times the portfolio may feature a high concentration in a low number of customers and suppliers in certain countries.	- Concentration only in markets in which the Group has sufficient prior experience. - Diversification policy that allows TR to access very different markets. - Deployment of relevant commercial action with new customers in markets in which TR does not yet have a presence. - Atomisation and diversification strategy for local and international construction suppliers.
Environmental and safety requirements.	TR carries out projects where incorrect performance entails high risks of impact on the environment or health and safety risks. The Group works to control and minimise those risks by collaborating with its customers, subcontractors and suppliers in this area.	- TR has an Environmental Management and Safety System. - Assurance of environmental management from the engineering phase. Extension of this assurance to suppliers and subcontractors through audits and training. - Reinforcement of the safety of processes from the design phase.

		- Promotion of occupational safety at suppliers and subcontractors.
Economic variables.	Certain economic circumstances (changes in exchange rates, interest rates, availability of financing, taxes, etc.) can have an impact on TR's business and profits. Period of geopolitical tensions high impact on economic variables.	- Continuous monitoring of the risks associated with currencies and the contracting of exchange hedges. - Management of a sound balance sheet and availability of adequate lines of financing. - Mitigation of the risk of customer liquidity problems by actively participating in the process of obtaining financing through banks that support the operations in which TR participates, as well as through the use of export insurance. .
Information technology.	As the Group's digital presence has increased, the risk of intrusions into its systems by cybercriminals has increased.	- Information Security Management System certified in accordance with ISO 27001:2015. - Employee training on cybersecurity matters. - An Information Security Committee has been created to analyse the development of the strategic cybersecurity plan, the results of the audits and the primary risks faced.
Retention of key personnel and adaptation of resources to the workload.	The loss of key personnel, as well as gaps in their training, may increase the risk of not executing projects adequately. Furthermore, the excessive concentration of projects or delays may give rise to inefficiencies in personnel management.	- Procedures to identify essential employees that must be retained and the application to them of policies that contribute to their retention. - Implementation of a flexible Human Resource structure to adapt swiftly to market changes. - Global management of human resources to make the criteria applied at the various subsidiaries uniform.
Integrity and reputation.	Improper or irresponsible behaviour by employees or other third parties with which the Group collaborates (suppliers and subcontractors) can negatively affect the reputation and results obtained by Técnicas Reunidas.	- Internal regulations and training to guarantee the proper behaviour of professionals and the availability of a Code of Conduct and a Whistleblower Channel. - Demanding minimum requirements from suppliers and subcontractors regarding the environment, human rights, health and safety.
Quality of execution	Quality in the execution of the works ensures not only the successful completion of the project, but also obtaining projects of a similar nature or with the same customer.	- Quality supervision mechanisms in all project stages. - Creation of databases recording the group's Know-How and best practices. - Quality Department responsible for drawing up procedures.

In addition to the operational risks mentioned above, Técnicas Reunidas evaluates other potential non-financial contingencies of minor impact to the Company with the aim of always ensuring the maximum performance levels in terms of Corporate Social Responsibility and sustainability. The details of the procedures applied by the Company to manage these risks may be found in each of the associated chapters of this document.

Notably, the Company also uses all the tools at its disposal to assess, manage and mitigate any financial risks not present in its immediate environment. As a result, Técnicas Reunidas has not experienced any significant impacts in this area in 2018.

13.3 Information on environmental matters

13.3.1 Corporate environmental policy and management systems applied for the identification and management of impacts on the Company in this area

Environmental management is a priority that has been fully integrated in the Company's strategy. In 2018, the Company has continued to work to respond to the new challenges in this area, including growing customer attention towards the environmental requirements of their projects, adopting a new paradigm in its management approach.
Since 1997 Técnicas Reunidas has adapted its Environmental Management System (EMS) to regulatory requirements and demands of stakeholders. 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, notably the Company's "Quality, Safety, Health and Environment Policy".

TR's environmental management covers the Group's operations and the activities within its value chain, establishing environmental requirements at the facilities and projects in which the Company participates, also applicable to its suppliers and subcontractors.

The EMS allows the environmental effects that are generated directly from TR's activities to be identified and managed. Once identified, the Company can implement control and mitigation actions, in addition to establishing objectives and monitoring actions based on a scorecard of indicators, covering all the phases required in a due diligence process.

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, therefore benefitting better environmental performance by the project during operations, and achieving higher efficiency during this phase with lower impact on the environment. In this sense and in response to growing customer concerns regarding the environmental requirements of their projects, Técnicas Reunidas has adopted the following measures:

- Optimisation of resources with an exhaustive analysis of the environmental impact at the offer stage, allowing the real needs of each project to be identified in the pre-project phases.
- Appointment of an environmental manager as part of the task force team.
- Increased role and responsibilities of the project's environmental manager in terms of internal environmental consulting.
- Realtime monitoring of environmental indicators for each project to avoid deviations.

The Company carries out the detailed monitoring of the environmental performance of its projects, having defined specific indicators to track material aspects in this field. The main environmental issues associated with the Company's business are the emission of greenhouse gases, energy, waste and the consumption of materials.

In recent years the Company has also engaged in efforts to expand the scope of activities to be tracked from the data collected. To do this, Técnicas Reunidas has established 2017 as the base year. It is important to highlight that, depending on the progress of each project, these ratios may vary significantly from year to year. Not surprisingly, the execution of EPC projects involves different phases with highly variable workloads, supply phases and staff levels.

The monitoring and analysis of all this information allows Técnicas Reunidas to design multiple actions to improve its environmental performance.

13.3.2 Emissions of greenhouse gases responsible for climate change and other forms of contamination

The main sources of greenhouse gases associated with TR's activity correspond to the consumption of fossil fuels in the Company's road fleet and facilities, electricity consumption at those facilities (level 2) and the emissions corresponding to employee travel and to purchases of products and services from suppliers and contractors (level 3).

In 2018 these emissions reached 45,396.44 tCO_{2eq} at level 1 (12.10% variation on 2017), 1,079.72 tCO_{2eq} at level 2 (-69.48% variation on 2017) and 21,253.09 tCO_{2eq} in the categories classed as level 3 (-6.47% variation on 2017):

	2018 data*	2018-2017 progress (%)
Level 1 emissions [tCO_{2eq}]	45,396.44	12.10%
Level 2 emissions [tCO_{2eq}]	1,079.72	-69.48%
Level 3 emissions [tCO_{2eq}]	21,253.09	-6.47%
TOTAL	67,729.25	1.46%

**To calculate the reported data, an estimate was made of the emissions associated with the last quarter of the year.*

TR is committed to the corporate goal of reducing Level 1 and 2 emissions by 12% in the 2016-2030 period. To this end, the Company works continuously in the identification and implementation of effective measures. In 2018, the most noteworthy actions correspond to energy efficiency plans, awareness campaigns, efforts to implement circular economy in its activities and promoting transparency with regard to climate change.

In relation to this last point, the Group is highly 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) in which Técnicas Reunidas has participated for several years. In the 2018 edition, the Company has remained among the leading companies in Spain with a score of “A-”, demonstrating its commitment with the environment and fostering transparency in the communication with its interest groups.

The main climate change risks to which the Company is exposed are identified in the CDP questionnaire. TR is primarily exposed to transition risks, in particularly those that depend on regulatory developments that could have an impact on its customers in the Oil & Gas sector. Furthermore, due to their geographical location, some of TR’s customers are subject to extreme temperatures (e.g., Middle East, Russia or Canada), exposing them to physical risks that can lead to changes in working conditions during the execution of projects.

On the other hand, TR is well positioned in the field of climate change opportunities to take advantage of stronger regulatory pressure in environmental matters given that the Company has appropriate technology for its customers to deal with increasingly stringent environmental requirements.

Técnicas Reunidas not only focuses its efforts on minimising greenhouse gas emissions. The Company deploys all available resources to identify existing environmental contingencies in each case and establish preventive measures and, as applicable, mitigation measures based on the best available techniques. In addition to emissions, spills etc., these limits include other forms of contamination, like noise for example. Regarding light pollution, the Company’s office buildings have automatic night-time shutdown systems from 8 pm to 6 am. In the case of works, these are illuminated in accordance with the safety and energy efficiency standards applicable in each country. For the proper management of all environmental issues, the Company has a wide range of support documents –including the Environmental Management Plan and Construction Environmental Management Plan–, which identify the limits of mandatory compliance, along with the actions to be implemented at all times.

13.3.3 Circular economy and waste prevention and management

Técnicas Reunidas is strongly committed to implementing an environmental strategy base on circular economy principles to minimise the potential impacts of its activities. TR’s project-related activities generate a variety of waste types, both hazardous and non-hazardous.

For their management, TR has implemented actions such as promoting prevention, reusing and recycling rather than generation and dumping, along with waste mitigation and control through the integration of cutting-edge environmental design techniques in the processes at its plants and conducting awareness campaigns at its offices and worksites.

Furthermore, in 2018 as part of its circular economy strategy, the Company has implemented two measures to reduce waste and water consumption in ongoing projects:

- **Reusing site excavation materials:** With regard to the management of surplus soil and rocks from excavation sites, the Company has encouraged their reuse in the works, highlighting the Rapid Petronas (Malaysia), KNPC (Kuwait), Teeside (United Kingdom), Ras Tanura and Haradh (both in Saudi Arabia), and Kilpilahti (Finland) projects, where the amount of waste soil has significantly reduced. This surplus was used to fill trenches and foundations or for landscape levelling tasks.
- **Reuse of water in works through onsite water treatment:** TR has fostered the optimisation of water consumption by installing wastewater treatment plant at its facilities, allowing the water to be reused on site. In 2018, this initiative was implemented at the Jazan IGCC and Jazan Refinery

projects in Saudi Arabia, where water is a scarce resource. The treated water is used for construction needs, curing concrete and controlling dust of roads and lorries.

In this sense, in 2018 the waste generated in the Company's projects has been as follows:

	Amount generated in 2018* (t)	**Evolution 2018-2017(%)**
Hazardous waste (including oils, electrical and electronic equipment and other minority fractions).	231.80	-40.87%
Non-hazardous waste (including wood, household equivalent waste and other categories)	39,902.40	0.82%

**To calculate the reported data, an estimate was made of the waste associated with the last quarter of the year.*

13.3.4 Actions to combat food waste

Aside from the waste from its operations, in recent years TR has implemented various measures to prevent food waste at subcontracted canteens, actively promoting its environmental commitments with responsible actions at work sites.

Given that most of the works performed by the Company are located at sites far away from urban centres, the measures are aimed at preventing waste and promoting the responsible use of food, including aspects relating to transportation, storage, handling, processing and consumption. The following preventive measures have been implemented in the management of these services:

- Planning purchases and calculating portions adapted to staff histograms, while also ensuring a balanced diet that meets nutritional needs.
- Managing stock rotation to plan food preparation.
- Preference for quality ingredients from local markets to serve fresh, locally-sourced meals.
- Adequate food transport, handling and storage, observing the conditions required by each product type, to best use and preserve the raw materials.
- Facilities designed and adapted to best provide the service, also using kitchen equipment and utensils that ensure appropriate storage, handling and preparation processes, to ensure the safety, conservation and consumption of meals in adequate conditions.
- Optimal conditions of hygiene to avoid contamination and the subsequent need to discard deteriorated products.

13.3.5 Sustainable use of resources

Energy is one of the main resources needed for all the Company's operations. In 2018, the Group consumed 644,969.18 GJ of energy in its activities (mainly in the form of diesel, petrol, electricity and fuel oil) representing a rise of 9.62% compared to 2017:

	Amount consumed in 2018 (GJ)*	**2018-2017 progress (%)**
Diesel	570,710.57	21.31%
Petrol	43,888.63	-42.81%
Fuel oil	827.65	NA**
Total electricity consumption	29,542.32	-20.74%
Total consumption of electricity from renewable sources***	20,648.07	NA**
Total	644,969.18	9.62%

**To calculate the reported data, an estimate was conducted of the energy consumption associated with the last quarter of the year.*
***Variation calculation not applicable since last year consumption was zero.*
****Renewable energy has been implemented by the Company this year at the following offices: BAMI 3, 5 and 6; GORBEA, MARÍA DE PORTUGAL, CTTR and Cartagena Office.*

To ensure the appropriate management of its energy consumption, during 2018 TR has implemented various actions including the adoption of energy efficiency plans and conducting awareness campaigns.

In addition, in 2018 the group launched several measures aimed at promoting the use of renewable energy at the Group's facilities. These have included changes to the electricity supply contracts at seven out of nine Técnicas Reunidas central offices, with the assurance that 100% of the power comes from renewable sources. This consumption represents 69% of the total power consumed, thanks to which Técnicas Reunidas has succeeded in preventing the emission into the atmosphere of 1,566.58 tonnes of CO_2 equivalent

TR has worked on optimizing the use of material resources in all phases of the value chain and the recovery of materials through R&D+I activities. Steel, copper and paper were the main materials consumed by Company as shown in the following table:

	Amount consumed in 2018 (t)	**2018-2017 progress (%)**
Steel	25,084.43	-69.91%
Copper	888.49	-19.08%
Paper*	107.09	3.97%

**To calculate the reported data, an estimate was conducted of the paper consumption associated with the last quarter of the year.*

Furthermore, although water consumption is outside the Company's material scope, TR endeavours to make responsible use of this resource at all times, both at work sites and office buildings.

In relation to its offices, water consumption is outside the scope of Técnicas Reunidas, given that it is the responsibility of the building owners. Nevertheless, the Company conducts campaigns to reduce water consumption in all its offices based on a commitment to savings and efficient consumption.

In the case of its projects, Técnicas Reunidas is responsible, within the scope of the contract, for providing potable water for site and office activities, together with the construction works.

13.3.6 Protection of biodiversity

Técnicas Reunidas carries out all its projects on industrial land, which is why biodiversity is not among the Company's material aspects. In this regard, the Company's activities during 2018 have not given rise to any significant impact on biodiversity.

TR executes its projects based on environmental impact assessments commissioned by its customers. In biodiversity matters, Técnicas Reunidas implements the measures required by the customer's contractual scope, offering, when necessary, specific consulting services for customer advice and support. When protection of biodiversity is assumed by Técnicas Reunidas in the contractual scope, the Company has developed several initiatives, including planting trees, aimed at compensating CO_2 emissions from these projects, hence reducing its carbon footprint. An example of this is the reforestation program in 2018 can be found at the Fadhili project in Saudi Arabia.

13.3.7 Provisions and guarantees for environmental risks

In view of the business activities carried on by the group, it does not have any environmental assets, provisions or contingencies that might be material with regard to its equity, financial position or results. However, the Company is insured under an environmental liability policy that guarantees coverage of potential environmental damage arising from Técnicas Reunidas' activities, including environmental liability at its own facilities and offsite, liability for pollution or liability during transport to and from third-party facilities.

13.3.8 Resources dedicated to the prevention of environmental risks

To prevent environmental risks, Técnicas Reunidas has an environmental area consisting of a team reporting to the HSE Department and responsible for the prevention and management of environmental risks in projects. This team of interdisciplinary professionals works in a cross-cutting manner throughout the group's companies/divisions, implementing a common methodology in all projects.

13.4 Information on social and personnel issues

13.4.1 Employment

Técnicas Reunidas' professionals are the Company's main asset. Our workforce has more than 8,900 employees, representing a major management challenge. Relying on various tools and strategies, the Company, manages the relationship with its professionals and promotes their development.

The tools available to TR include policies, procedures and bodies that govern the principles, guidelines and decisions related to human resources. This framework enables the appropriate management of human resources, offering a safe and dependable environment that reinforces their commitment to the Company.

The application of these procedures assists TR in the identification, assessment and mitigation of potential risks, therefore ensuring that the Company has not suffered any significant personnel-related issues in 2018.

Another key aspect for Técnicas Reunidas is the globalised management of human resources in response to its diversification strategy, in services and projects as well as geographical area. This globalised management approach enables the Group to implement more comprehensive control of all sections related to human resources, increasing the reliability of information, offering a series of basic conditions to all employees, and optimising time and cost in their management.

In this area, TR has implemented a software tool (SAP Success Factors), which enables better management of remuneration plans, employee performance, or training schemes.

The group's workforce at 31 December 2018 stood at 8,971 workers, of whom 8,311 are TR employees and 660 are outsourced workers and independent professionals who have a direct contract with the Company. In this regard, this document provides information on Técnicas Reunidas' own workforce and in those cases where there is information on subcontracted staff, their data is included in the scope of the indicators reported. It should also be noted that Técnicas Reunidas has a total of more than 50,000 subcontracted construction workers in its projects (see section 13.7). However, the Company has no direct link with these workers, who are direct employees of the subcontractor in question. For this reason, the information concerning these workers is not included in the scope of this report. The following tables show the breakdown of the indicators on TR's workforce:

- Distribution of staff by gender, age, country and professional category:

Distribution of staff by gender*	**No.**	**%**
Men	6,312	75.95%
Women	1,999	24.05%
TOTAL	8,311	100.00%

**Subcontracted staff and independent professionals are excluded from the scope*

Distribution of staff by professional category*	No.	%
Executive Directors	2	0.02%
Senior Executives	11	0.12%
1st Management Level	62	0.69%
2nd Management Level - Middle Managers	321	3.58%
Graduates, specialists and administrative staff	8,438	94.06%
Superintendents	57	0.64%
Sales staff	80	0.89%
TOTAL	8,971	100.00%

**Subcontracted staff and independent professionals are included in the scope*

Distribution of staff by age*	No.	%
<30 years of age	299	3.60%
30-50 years of age	7,037	84.67%
>= 50 years of age	975	11.73%
TOTAL	8,311	100.00%

**Subcontracted staff and independent professionals are excluded from the scope*

Distribution of staff by country*	No.	%
Spain	5,445	60.70%
Oman	266	2.97%
Chile	131	1.46%
India	73	0.81%
Saudi Arabia	1,074	11.97%
Kuwait	900	10.03%
Peru	290	3.23%
Malaysia	142	1.58%
Abu Dhabi	133	1.48%
Turkey	104	1.16%
Algeria	99	1.10%
Jordan	57	0.64%

UK	46	0.51%
Azerbaijan	45	0.50%
Mexico	42	0.47%
Canada	26	0.29%
Australia	21	0.23%
Poland	20	0.22%
Finland	15	0.17%
Bolivia	10	0.11%
Italy	10	0.11%
Belgium	9	0.10%
Russia	6	0.07%
United States	5	0.06%
Dominican Republic	2	0.03%
TOTAL:	8,971	100%

**Subcontracted staff and independent professionals are included in the scope*

- Total number and distribution of employment contract types:

Distribution of employment contract types*	**No.**	**%**
Permanent	4,055	45.20%
Temporary	4,916	54.80%
TOTAL	8,971	100.00%

**Subcontracted staff and independent professionals are included in the scope*

Distribution of employment contract types*	**No.**	**%**
Full time	8,971	100.00%
Reduced workday	556	6.20%

**Subcontracted staff and independent professionals are included in the scope. In addition, 100% of TR's contracts are "full time"; the Company does not have part time contracts. Nevertheless, this table includes employees with full time contracts and those employees with full time contracts who furthermore have a reduced workday.*

Annual average of contracts by contract type, gender, age and professional category:

Average contracts by gender*	**Distribution by gender**	
	Men	**Women**
Permanent	2,525	1,438
Temporary	4,331	583
TOTAL	6,856	2,021

**Subcontracted staff and independent professionals are included in the scope. Técnicas Reunidas does not provide part-time contracts.*

Average contracts by age*	**Distribution by age**		
	<30	**>=30, <50**	**>=50**
Permanent	252	2,893	818
Temporary	54	4,685	175
TOTAL:	306	7,578	993

**Subcontracted staff and independent professionals are included in the scope. Técnicas Reunidas does not have employees with part-time contracts.*

Average contracts by professional category*	**Executive Directors**	**Senior Executives**	**1st Management Level**	**2nd Management Level - Middle Managers**	**Graduates, specialists and administrative staff**	**Superintendents**	**Sales staff**
Permanent	2	11	63	165	3,662	25	35
Temporary	0	0	0	146	4,693	31	44
TOTAL	2	11	63	311	8,355	56	79

**Subcontracted staff and independent professionals are included in the scope. Técnicas Reunidas does not provide part-time contracts.*

- Number of dismissals by gender, age and professional category:

Number of dismissals	No.	%
Distribution by gender		
Men	34	65.38%
Women	18	34.62%
TOTAL	52	100.00%
Distribution by age		
<30	3	5.77%
>=30, <50	34	65.38%
>=50	15	28.85%
TOTAL	52	100.00%
Distribution by professional category		
Executive Directors	0	0.00%
Senior executives	0	0.00%
1st Management Level	0	0.00%
2nd Management Level - Middle Managers	1	1.92%
Graduates, specialists and administrative staff	51	98.08%
Superintendents	0	0.00%
Sales staff	0	0.00%
TOTAL:	52	100.00%

**Subcontracted staff and independent professionals are excluded from the scope*

- Total average compensation (fixed and variable wages) of the workforce broken down by gender, age and professional category or equivalent value:

Total average compensation by gender* (€)	
Men	52,217.47
Women	41,818.41
TOTAL:	49,636.52

**Subcontracted staff and independent professionals are excluded from the scope*

Total average compensation by professional category* (€)	**Men**	**Women**
Senior executives	394,465.19	192,195.48
1st Management Level	168,472.92	163,165.03
2nd Management Level - Middle Managers	101,080.61	85,244.93
Graduates, other line personnel and clerical staff	48,708.72	40,183.32
Superintendents	24,875.00	21,370.00
Sales staff	114,679.03	64,921.41

**Subcontracted staff and independent professionals are excluded from the scope*

Total average compensation by age* (€)	
<30	29,788.61
>=30, <50	45,835.24
>=50	71,317.76

**Subcontracted staff, independent professionals and subsidiaries are excluded from the scope*

- Wage gap:

Wage Gap*	**%****
Senior Executives	51.28%
1st Management Level	3.15%
2nd Management Level - Middle Managers	15.67%
Graduates, specialists and administrative staff	17.50%
Superintendents	14.09%
Sales staff	43.39%

- **Subcontracted staff and independent professionals are excluded from the scope.*
- *** The Wage Gap has been calculated based on the following formula*

$$1 - \frac{average\ women's\ wage\ by\ professional\ category}{average\ men's\ wage\ by\ professional\ category}$$

Directors' remuneration:

Total average directors' remuneration by gender (€) - executive directors*	
Men	€1,485,716.90
Women	N/A
Total average directors' remuneration by gender (€) - rest of directors*	
Men	€182,299.18

Women	€164,670.00

** Directors' remuneration is broken down in detail in the Annual Director's Remuneration Report of listed companies.*
*** Includes remuneration of directors who have served for the entire financial year.*

13.4.2 Work organisation, measures to encourage work-life balance and implementation of disconnection from work policies

For over 15 years the Company fostered the introduction of flexible working hours at its offices. In addition, employees are entitled to request a reduction in working hours.
Técnicas Reunidas also encourages the balance between work and personal life as one of its priorities in managing human resources. To this end, it has implemented a flexitime model for the workforce, based on trust and employee commitment. This model allows workers to manage their time and perform their professional activities while enjoying a better quality of life. Furthermore, depending on the area where the offices are located, office hours have been adapted to streamline arrival and departure times based on traffic conditions, therefore reducing employees' travel time.
The Company has not identified any risks related to the disconnection of its employees outside working hours. For this reason, TR does not consider it necessary to have a specific work disconnection policy work to offer a healthy working environment and ensure that its employees enjoy their free time.

13.4.3 Disabled employees.

In its commitment to effective labour integration and development, Técnicas Reunidas has hired a total of 31 employees with disabilities, offering them stable and quality employment on equal terms.
With regard to accessibility to its buildings, TR complies with the regulations in force in each country where it operates. In addition, with regard to the Company's website, one of the main objectives is to ensure ease of access, regardless of any physical or technical disability. To this end, TR adheres to the Web Accessibility Initiative (WAI) of the World Wide Web Consortium (W3C). This organisation has developed the Web Content Accessibility Guidelines (WCAG) 1.0 aimed at making web content accessible to people with disabilities.

13.4.4 Training

A key aspect that directly impacts on the Company's competitiveness is the safeguarding and enhancement of its intellectual capital. To this end, TR has an active knowledge management system instrumented mainly through the training resources and necessary knowhow that are made available to employees and that enable them to improve their performance at work.

To carry out its training management tasks, TR has three main policies, each with different objectives:

1) "Evaluation process and information records of employees" procedure: assures the quality of talent management processes.
2) "Skills, training and awareness" procedure: ensures that people are capable of performing the tasks assigned to them.
3) "Annual training plan and course management" procedure: describes the Company's training plan preparation process, along with how the specific training actions are requested under the plan.

Técnicas Reunidas is aware of the importance of attracting talent through disseminating knowledge. Accordingly, the Company offers its employees a complete range of courses and adjusted training plans to help them maximise their skills and growth potential throughout their professional careers. Thanks to this commitment, TR supports its professionals and facilitates the achievement of new goals that contribute to fulfilling the Company's objectives.

To this end, an analysis of skills in each area is performed, identifying specific gaps and implementing specific training plans (training roadmaps). In addition, after each training session the participants' supervisors receive a questionnaire to assess the effectiveness of the training and identify potential improvements and adjustments to the training for the future.

Training by category	Hours
Senior Executives	46
1st Management Level	921
2nd Management Level - Middle Managers	3,848.5
Graduates, specialists and administrative staff	90,139.5
Superintendents	55
Sales staff	959
Total	**95,969**

Training by type	Hours
Skills	15,771
Languages	23,828
Technical	56,370
Total	**95,969**

** Técnicas Reunidas tallies all training hours where attendance rates are higher than 20%. If an employee as attended less than 20% of the theoretical course duration, their hours of participation are not included in the report.*

13.4.5 Equality

Técnicas Reunidas encourages a climate of respect for diversity and guaranteed equal opportunities, where people are judged and valued for their worth and professionalism.

The Company's commitment in this area is expressly stated in its Code of Conduct (available on the website), which sets out that Técnicas Reunidas 'will not accept any discrimination in employment-related or professional matters, whether based on age, race, colour, gender, religion, political opinion, nationality, social background, disability, sexual orientation or any other circumstance that might engender discrimination'.

As reflected in the Code "The TR Group is committed to promoting the moral and physical integrity of its Professionals, guaranteeing conditions of respect and dignity in the workplace. In particular, the Group will take appropriate measures to prevent and, if necessary, correct the following: any manifestation of violence; physical, sexual, psychological, moral or other type of harassment; abuse of authority at work; or any other conduct that intimidates or infringes on the rights of TR Group Associated People. Also, in view of the importance of balancing work and personal life, any reconciliation measures and actions in this area will be encouraged."

The Company also has an Equality Plan and an Equality Committee that meets on a quarterly basis to analyse the current situation and potential conflicts, adopting appropriate measures as necessary. Furthermore, in 2018 the Company approved the Policy Against Workplace and Sexual Harassment.

Thanks to these procedures, TR carries out the identification, management and mitigation of risks that may arise in this field during the Company's activities. The implementation of all these preventive measures has prevented the appearance of any significant impacts in this regard.

13.4.6 Occupational health and safety

Achieving a safe and healthy environment for everyone involved in Técnicas Reunidas' business is a goal that requires constant effort by employees to improve on a daily basis, and that effort must be guided by company management.

To achieve the full integration of occupational safety and health throughout the life cycle of its projects, for 11 years now, Técnicas Reunidas has used an Occupational Health and Safety Management System certified in accordance with the OHSAS 18001 standard that covers all phases of the project life cycle, from design through to construction and start-up. The Occupational Health and Safety System is part of the Corporate Quality, Safety and Environment Policy and is based on three pillars: accident prevention, integration of safety in corporate strategy and continuous improvement of methods and processes.

To ensure that the management system is implemented correctly and that it conforms to the established objectives, internal corporate health and safety audits are performed, as well as follow-up audits as defined in the plans. The results of these audits are discussed with the client or subcontractor at the site, facilitating the effectiveness of actions taken to correct any shortcomings.

At the same time, external audits are performed on projects at the construction phase, in order to maintain international Health and Safety management system certifications. During 2018, 15 internal audits were carried out during the construction phase of projects, resulting in the detection of 658 deviations (34.4% less than in 2017). The average level of compliance identified in the audits was 87.48%, in line with the results of recent years.
TR ensures that high standards of occupational safety are observed by its supply chain, establishing specific requirements and promoting good practices in this regard. Onsite health and safety managers oversee the application of specific health and safety plans by subcontractors, implementing any preventive actions that are considered necessary. To this end, the Company carries out information campaigns, preventive measures and regular medical check-ups.

The Company also works to ensure the standardisation of health and safety procedures throughout the entire organisation, in order to guarantee maximum efficiency in the dissemination and assimilation of corporate policies. This objective is based on an intensive drive toward training. During 2018, there were 0.61 hours of training provided in this area for every 100 hours worked (8.93% more than in 2017), taking into account the personnel of both the Company (in offices) and its subcontractors.

With regard to the effectiveness of its safety policies, Técnicas Reunidas assesses their performance through a system of indicators. At present, based on the Company's materiality principle, the information reported corresponds to projects, given that the greatest safety risks are identified with the type of activities carried out during the construction phase. The evolution of H&S indicators for 2018 are shown in the following table:

	Value of the indicator in 2018			**2018-2017 progress (%)**
	Women	Men	Total	
Lost time incident rate* (LTIR)	0.000	0.010	0.010	-66.67%
Total recordable incident rate** (TRIR)	0.000	0.060	0.060	-45.56%
Severity rate*** (SR)	0.000	0.005	0.005	-54.55%
Occupational disease rate	0	0	0	NA****

* LTIR (Lost Time Incident Rate): No. of incidents involving lost time/No. of hours worked * 200,000. The index refers to the frequency of accidents.
** TRIR (Total Recordable Incident Rate): No. of recordable incidents (based on OHSA)/No. of hours worked * 200,000. This index refers to the frequency of accidents.
*** Severity rate (SR) = (No. of days lost through incidents/Total no. of hours worked) * 1,000. This index refers to the severity of accidents.
**** This progress calculation is not applicable because in 2017 this information was not reported.

It should be noted that construction work has involved 196,400,000 working hours (42% more than in 2017), including hours worked by subcontractors, meaning that the Company has had to manage a volume of more than 60,400 workers (including Company and subcontractor workers), 44% more than in the previous year. Despite this increase, the lost time incident rate (LTIR) and recordable incident rate (TRIR) –both corresponding to men– have improved by 67% and 45% respectively, compared to the previous year, with figures well below the corporate limits set by the Company. The severity rate (SR) has also improved with a decrease of 55%, exceeding the established target.

Sadly however, the death was reported of a worker belonging to a subcontractor. The corresponding cause analysis was conducted after the accident and appropriate measures to prevent recurrence have been taken. Lessons learned from the investigation have been distributed to all parties involved in project and construction activities.

Finally, in addition to the data mentioned above, the group monitors absenteeism rates throughout the Company. The hours of absenteeism for 2018 are shown below:

	Value of the indicator in 2018
Total number of absenteeism hours	273,722

13.4.7 Labour relations

In relation to trade union organisations of TR employees, there are currently three committees: the equality committee, training committee and the overseas assignments committee, with which TR meets regularly in order to promote dialogue and consensus with its workers.

Técnicas Reunidas is well aware of the role of unions as the legal representatives of workers' interests. Therefore, the Company at all times guarantees equal and non-discriminatory treatment of its workers, respecting their freedom of association in line with the collective bargaining agreements and legislative framework of the country concerned.

13.4.8 Employees covered by a Collective agreement

In all countries where collective bargaining agreements exist, 100% of employees are covered by the collective agreement associated with the activity licence granted to the Company (engineering, construction, etc...). In addition, health and safety clauses are included in all collective agreement, which are adapted to the corresponding local legislation.

13.5 Information on respect for human rights

From the outset and as one of its priorities, Técnicas Reunidas has always acted with integrity and respect for human rights in the exercise of its business, incorporating these principles as part of TR's corporate culture. To this end, the Company has a CSR management framework based on a specific corporate policy approved by the Board describing the Group's main commitments in corporate, environmental and social governance, including the respect for human rights among its social commitments.

Accordingly, the Company has developed various internal policies and procedures to ensure its consistent compliance everywhere it conducts business, including the Company's Code of Conduct. In the specific area of Human Rights, the code establishes the commitment to act at all times in accordance with prevailing legislation, guaranteeing respect for human rights and internationally accepted ethical practices.

Furthermore, the Code recognises the need for all the Company's activities to be conducted in a manner consistent with the values and principles contained in the United Nations Global Compact, of which TR is a signatory. Técnicas Reunidas also belongs to a Group whose activities are bound by the principles of the Universal Declaration of Human Rights and the OECD Guidelines for Multinational Enterprises.

The Code likewise expresses TR's complete rejection of child and forced or compulsory labour and establishes the corporate commitment to respecting freedom of association and collective bargaining and to recognise the rights of ethnic minorities in the countries where it operates, rejecting any form of discrimination, exploitation and, child labour, therefore ensuring compliance with the International Labour Organization (ILO).

These self-imposed requirements for Company also extend to the value chain. In this vein, TR requires its business partners (e.g., suppliers or subcontractors) to adhere to a series of guidelines in environmental, labour and humans' rights matters. To identify and remedy potential abuses, the Company conducts evaluations to monitor the respect for human rights. Técnicas Reunidas' requisites also feature an initial approval procedure that ensures that the supply chain operation will always be performed in accordance with the law and complying with all specific human rights conditions, in accordance with the type of business and level of risk.

Besides this, the Company has incorporated human rights due diligence procedures as part of its global risk management system. Through this system, TR evaluates, prevents and mitigates any significant risks and impacts that could affect the Company globally. The methods applied can be classified into those deployed at the project tender phase and those used during project execution.

With regard to the Code of Conduct, the Company also has a Whistleblower Channel (Code Mailbox) to facilitate the reporting and prevention of breaches and other matters related to the Code of Conduct, such as human rights. This Channel is available to Técnicas Reunidas' employees, partners, suppliers or subcontractors alike.

As a result of these efforts, Técnicas Reunidas has not received any complaints during the 2018 concerning the respect for freedom of association and collective bargaining rights, workplace or employment discrimination, forced or compulsory labour or child labour, nor on any other matter concerning the violation of human rights in any of the countries where it has operated in this period.

However, if despite all the measures implemented by the Company, it detects any human rights breaches or other actions with a negative impact on those rights, Técnicas Reunidas will act by immediately and implement the appropriate measures in each case, always adopting a zero-tolerance approach to such actions.

13.6 Information related to the fight against corruption and bribery

13.6.1 Management approach

Técnicas Reunidas' Code of Conduct is the fundamental tool to prevent the corruption, bribery and money laundering activities. Furthermore, the Group has a Regulatory Compliance Unit, tasked with the dissemination of the Code of Conduct, the management of the Whistleblower Channel, and the review and adaptation of the crime prevention and reporting systems

In 2018, Técnicas Reunidas has continued to deploy the Management System for Crime Prevention (based on the Company's Code of Conduct, internal regulations and applicable law). This system enables the Company to minimise risks and enhance its capacity in the prevention, detection and response to critical issues in regulatory compliance and integrity. The Group is currently rolling out the international implementation of this system, to be completed in 2019, with the aim of keeping tighter control of regulatory compliance in all the Company's subsidiaries and projects across the world and reducing the associated risks.

To manage all these issues, in 2018 the Company approved several Compliance policies, including the following: *Criminal Compliance Policy* and *Catalogue of Criminal Risks and Expected Conduct*, *Gifts and Entertainment Policy*, *Policy on Relations with Public Officials and Equivalents*, *Policy on Links with Foreign Partners*, *Anti-corruption Policy*, *Conflicts of Interest Policy* and the *Antitrust Policy*.

The Company is also working to adapt the Management System for Crime Prevention to new benchmarks and standards to improve management, including UNE 19601 on Crime Prevention Compliance (to which the system has already been adapted and work is now ongoing on its dissemination) and ISO 37001 on Anti-bribery Management Systems (under adaptation).

Based on all these tools and procedures, TR carries out an assessment of potential risks and their prevention, management and mitigation measures should they occur. Thanks to which the Company has not recorded any significant incidents in 2018.

13.6.2 Contributions to foundations and non-profit entities

In 2018, TR donated €626,808 to foundations and non-profit organisations (for more information see section 5.7).

13.7 Information about the Company

13.7.1 Commitments of the Company to the sustainable development of local communities

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 organisations 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 maximise the positive impacts and reduce or eliminate the negative impacts.

Técnicas Reunidas' priorities include identifying and managing the most critical aspects for the local community that might arise from the implementation of its projects. For this purpose, the Company has established a Social Management Framework (see box below). This enables the planning of specific actions in response to these issues, where coordination with the local environment and different stakeholders (public administrations, partners, suppliers, subcontractors, etc.) is crucial. Issues frequently identified by TR include the recruitment and training of local workers, the development of infrastructure in the local area, potential environmental effects and cultural needs. Throughout 2018, TR has worked to systemise social management tasks in the projects implemented by the Company, not only from a corporate or health and safety standpoint, but also in a broader and more dedicated sense, to address the individualities of each project, construction work or community affected.

SOCIAL MANAGEMENT FRAMEWORK	
Evaluation and management of social impact	Specific analysis at the bidding phase of the social impact of each project. Obtaining the "social licence" to operate is the customer's responsibility.
Projects supporting the local community	Through its coordination with the local community, Técnicas Reunidas understands its needs and expectations, and can analyse the best ways to organise its support based on the characteristics of each project.
Continuous monitoring of the local environment	Técnicas Reunidas continuously monitors the local environment, as well as the performance of third parties involved in the implementation of projects, including suppliers and contractors.
Social impact grievance and reparation mechanisms	Company analyses local regulations in order to detect negative social impacts and provide the appropriate grievance and reparation mechanisms.
Dialogue with local communities	Ongoing dialogue with representatives of the local community during the implementation of all projects is the responsibility of the project manager.

TR pays special attention to the careful selection of personnel assigned to the implementation of projects - an aspect that the Company takes into account from the worker selection phase and continues with their deployment to the site. Much of this task's success lies in a management procedure that allows local hiring requirements to be met and balanced with the need for expatriate labour, within the deadlines established for the successful and timely implementation of projects.

The projects in which Técnicas Reunidas participates generate various positive impacts on their environment:

- Employment generation in the local environment
- Contracting with local suppliers and subcontractors, which in turn reinforces the Company's positive economic contribution to the local environment (€2,951.99 million in local procurement and contracting in 2018, representing 89% of the total).

- Training for local companies and workforces through courses and workshops organised by the Company.
- Strengthening of the local business network.
- Creation of key energy infrastructures through the Company's projects

During 2018, the Company has not identified any centres with significant negative impacts, real or potential, on local communities due to the development of Técnicas Reunidas' projects or operations.

13.7.2 Partnership or sponsorship actions

Beyond the context of its projects, Técnicas Reunidas maintains four areas of work (education, social and business initiatives, culture and science and research) that demonstrate its commitment to social action, implemented through numerous activities and projects.

When implementing them, the Company seeks out other organisations that share its objectives and assesses possible collaborations, both economic and through other mechanisms such as participation in working groups, forums, etc. Among others, following actions stand out:

Main organisations Técnicas Reunidas collaborates with

Commitment to social action by Técnicas Reunidas

Culture

Science and research and education

At the sectoral level, Técnicas Reunidas participates in various associations related to its business activities, collaborating on initiatives including those related to the promotion of business and entrepreneurial activity, and other organisations that promote transparency and CSR.

Promotion of business and entrepreneurial activity

13.7.3 Subcontracting and suppliers

Técnicas Reunidas' main aim in managing its supply chain is to achieve competitive procurement of materials, equipment and assembly services in line with the standards demanded by the sector. It is also crucial for the Group's supply chain to be aligned with its values and requirements in terms of health and safety, environment, workers' rights, respect for human rights, ethics and integrity.

As part of this commitment, the Company requires companies in its supply chain to adhere to the Code of Conduct for Company suppliers and subcontractors by means of their registration on the e-supplier web portal. Alongside this, Técnicas Reunidas has a series of specific requirements on environmental and labour matters and the protection of human rights, including specific requirements in line with standard ISO 14001, compliance with environmental legislation and sustainability reporting. Furthermore, this year the Company has approved its *Policy on Links with Business Partners* regulating the due diligence processes on suppliers and subcontractors, among other matters.

Técnicas Reunidas maintains a global database comprising 24,258 materials suppliers and construction subcontractors, including 2,095 suppliers and 493 subcontractors that have already been approved by the Company. This global supplier market with updated information allows the Company to mitigate the risk in the selection of suppliers and subcontractors from the financial, performance and quality points of view, among other aspects.

Due to the nature of its business, each year the Company handles high volumes of purchases and subcontracts. In 2018, the total spending on purchases from suppliers of materials and engineering subcontracts stood at €3,333.80 million. Furthermore, in relation to the employees of construction subcontractors, these exceeded 52,300 workers on average assigned to Técnicas Reunidas projects (and more than 56,800 at peak times).

To manage this complex supply chain, TR has a management framework governing the two main areas responsible for the supply chain: The Procurement Unit (responsible for purchases from suppliers of materials and equipment) and the Construction Area (responsible for construction subcontracting). These two areas manage TR's supply chain based on five lines:

- Constant innovation in the management of the supply chain.
- Presence of rules and regulations in all processes (bidding, award and management).
- Development of annual internal strategic plans in line with TR's overall objectives and responding to the business context.
- Existence of an Integrated Management System that enables both individual and global evaluation and monitoring of suppliers' and subcontractors' performance.
- Centralised contract award system that ensures transparency throughout the award procedure for suppliers and subcontractors.

As described in section 13.5, as part of its relations with its suppliers and subcontractors, TR considers matters related to their social and environmental responsibility. These aspects are not only considered in the approval process, but are kept in mind throughout the relationship with suppliers, monitoring their compliance.

Following the delivery of the supply or completion of assembly services, the supplier's performance is assessed based on different aspects. The results of evaluations are disclosed and serve as a reference in identifying improvement actions. Safety and environmental performance are two of the aspects included in Técnicas Reunidas' evaluations. Since 2014, the Company has required a specific audit report on these areas based on information gathered during inspection visits to the workshops.

Similarly, subcontractors undergo monitoring during the execution of the work to ensure compliance with all contractual requirements.

These audits involve the inspection of all work performed by the subcontractor, which is only accepted once Company inspectors have verified that it has been carried out in accordance with the project designs and specifications. The verification of corrective actions is a regular practice during these inspections, which is documented in detail in the quality dossiers submitted to the client.

In the event that Técnicas Reunidas detects an environmental, social or ethical deviation, this is then studied in detail. Depending on the type of deviation and its severity, the supplier is required to take corrective and preventive action, and if the deviation is significant, the supplier is blacklisted for new tenders or contract awards.

During 2018, a total of 190 HSE audits were conducted, of which 161 were successfully passed, and 29 that were unsatisfactory. All audits featuring incidents will be appropriately addressed by TR with the implementation of improvement plans.

With regard to impacts, no significant actual or potential negative environmental or social impacts were identified in the supply chain during 2018, having analysed a total of 724 suppliers on the basis of social and environmental criteria.

13.7.4 <u>Consumers</u>

Técnicas Reunidas has no consumers, based on the consideration of this concept under Spanish legislation.

The Company evaluates 100% of its projects from the point of view of health and safety. Up to the time of delivery, TR ensures that its projects meet both its own health and safety standards, as well as those required by the customer and applicable law.

With regard to complaints mechanisms, given the Company's activity, TR does not deal directly with consumers. Customers can use the contractual claims mechanisms agreed in each case and, like any other business partner related to TR, they can use the Whistleblower Channel of the Técnicas Reunidas Code of Conduct.

13.7.5 Tax information

- Operating profit earned by geographic area

  Country-by-country information is not supplied due to its sensitive nature in the Group's commercial action.

- Corporate income tax paid

	Thousands of euros
Geographical area	**Corporate income tax paid**
America	19,464
Asia	2,002
Spain	(9,917)
Europe	1,182
Mediterranean	3,040
Middle East	835
	16,606

The corporate income tax paid in Spain in FY 2018 was negative due to the high volume of returns related to surplus prepayments made in FY 2017 for an amount of €27,593 thousand.

- Public subsidies received: €597 thousand.

13.8 About the non-financial information statement

By means of this non-financial information statement, TR responds to the requirements of Spanish Law 11/2018, of 28 December. Its contents are based on the period reporting carried out by the Company in this field through the annual Integrated Report drawn up in accordance with the GRI sustainability reporting framework and the IIRC Integrated Reporting framework.

To design the contents of this report and select the most relevant aspects, TR has conducted a materiality analysis that has allowed it to identify the most relevant aspects to be reported to its stakeholders, and to respond to the requirements for reporting non-financial information based on current regulations. In those cases where the information required by law is published for the first time or the perimeter varies significantly compared to previous years, the information for the current financial year is presented. For information already published where the perimeter has not changed, the non-financial information statement contemplates comparative data from previous years.

In addition, in all aspects that are not material for Técnicas Reunidas, this report addresses the management approach but does not give detailed information on KPIS or other quantitative indicators, given that these are not considered as representative of the group's activities. The non-material aspects for the Company demanded by law are as follows: light and noise pollution, water consumption, food waste and biodiversity. For further information on the methodology used to conduct the materiality analysis, please see the chapter "Reporting Practice for the Integrated Report", of TR's 2017 report, available on the corporate website.

Additionally, Técnicas Reunidas has prepared a traceability analysis that links aspects of the law with the associated GRI contents, published by the Company. See the table of contents in the table attached below:

Table of compliance with Spanish Law 11/2018, of 28 December

Content	Section	Associated GRI indicator
Business model		
- Corporate environment and business model	13.1.1.- 13.1.4.	102-2
- Markets in which the Company operates	13.1.4	102-6
- Objectives and strategies	13.1.6	102-14
- Factors and trends affecting the evolution	13.1.5	102-15
Policies	13.2.; 13.3.1.; 13.4.2; 13.4.4; 13.4.5.; 13.4.6.; 13.5.; 13.6.1; 13.7.1; 13.7.3.	103 - Management approach for each material issue
Risks	13.2.	102-15
Environmental issues		
Global		
- Effects of the Company's activities on the environment and on health and safety	13.3.	103 - Management approach for each material issue related to the Environment
- Precautionary principle, provisions and guarantees against environmental risk	13.3.7	102-11
- Resources assigned to prevention of environmental risks	13.3.8	103 - Management approach for each material issue related to the Environment
Pollution		
- Measures associated with carbon emissions	13.3.2	103 - Emissions
- Measurements associated with light, noise and other types of pollution	13.3.2	Non-material / 103-biodiversity

Circular economy and waste prevention and management			
-	Initiatives for promoting the circular economy	13.3.3	103 - Waste
-	Measures associated with waste management	13.3.3	306-2
-	Actions to combat food waste	13.3.4	103 - Waste
Sustainable use of resources			
-	Water: consumption and supply	13.3.5	Non-material/103 - water
-	Raw materials: consumption and measures	13.3.5	301-1
-	Energy: consumption, measures and use of renewable sources	13.3.5	302-1
Climate Change			
-	Greenhouse gas emissions	13.3.2	305-1/ 305-2/ 305-3
-	Climate change adaptation measures	13.3.2	103 - Emissions
-	Emissions reduction targets	13.3.2	103 - Emissions
Biodiversity			
-	Preservation measures	13.3.6	Non-material/ 103 - Biodiversity
-	Impacts caused in protected areas	13.3.6	Non-material /304-2
Social and personnel issues			
Employment			
-	Total number of staff and distribution by gender, age, country and professional classification	13.4.1	102-8/405-1
-	Total number and distribution of employment contract types	13.4.1	102-8
-	Annual average of permanent, temporary and part-time contracts by gender, age and professional classification.	13.4.1	102-8/405-1
-	Number of dismissals by gender, age and professional category	13.4.1	401-1
-	Average compensation broken down by gender, age and professional category or equivalent value	13.4.1	405-2

- Wage gap, remuneration for equal work positions or company average	13.4.1	405-2
- Average remuneration of directors and executives	13.4.1	102-35
- Disconnection from work policies	13.4.2	103- Employment
- Disabled employees	13.4.3	405-1
Organisation of work hours		
- Work organisation	13.4.2	103- Employment
- Number of hours of absenteeism	13.4.6	403-2
- Work-life balance measures	13.4.2	103- Employment
Health and safety		
- Occupational health and safety conditions	13.4.6	103- Occupational Health and Safety
- Work-related accidents, in particular their rate and severity	13.4.6	403-2
- Work-related illness, broken down by gender	13.4.6	403-2
Labour relations		
- Organisation of social dialogue	13.4.7	103- Worker-company relations
- Percentage of workers covered by collective agreements by country	13.4.8	102-41
- Balance of collective agreements on occupational health and safety	13.4.8	403-4
Training.		
- Policies implemented in the field of training	13.4.4	103- Training and education
- Total number of training hours by professional category	13.4.4	404-1
Universal accessibility for disabled people		103 - Diversity and equal opportunities/103 - Non-discrimination

Equality			
-	Measures adopted to promote equality, equality plans and non-discrimination and diversity management policy	13.4.5	103- Diversity and equal opportunity / 103 - Non-discrimination
Human Rights			
-	Due diligence procedures for human rights matters and if applicable, mitigation, management and repair	13.5.	102-16/102-17/103-Evaluation or Human Rights/103- Freedom of association and collective bargaining/103-Child labour/103-Forced or compulsory labour
-	Complaints about cases of human rights violations	13.5.	406-1
-	Promotion and compliance with ILO conventions related to freedom of association and collective bargaining	13.5.	407-1
-	Elimination of discrimination at work, forced or compulsory labour or child labour	13.5.	408-1/409g-1
Corruption and bribery			
-	Measures taken to prevent corruption and bribery	13.6.1	103- Anti-corruption
-	Anti-money laundering measures	13.6.1	103- Anti-corruption
-	Contributions to foundations and non-profit entities	13.6.2	413-1
Company			
Commitments of the Company to sustainable development			
-	Impact of the Company's activity: employment, local development, local populations and territory	13.7.1	103 - Local communities/ 103-Indirect Economic impacts
-	Dialogue with local communities	13.7.1	413-1
-	Partnership or sponsorship actions	13.7.2	102-12/102-13
Subcontracting and suppliers			
-	Inclusion in the purchasing policy of social issues, gender equality and environmental issues.	13.7.3	102-9
-	Consideration in the relations with suppliers and subcontractors of their social and environmental responsibility	13.7.3	103- Management Approach procurement practices
-	Supervision systems and audits and their results	13.7.3	308-2/414-2

Consumers		
- Measures for the health and safety of consumers	13.7.4	416-1/103- Customer health and safety
- Claims systems, complaints received and complaint resolution	13.7.4	103- Customer health and safety
Tax information		
- Operating profit earned by geographic area	13.7.5	103- Economic performance
- Corporate income tax paid	13.7.5	103- Economic performance
- Public subsidies received	13.7.5	201-4

TÉCNICAS REUNIDAS, S.A.

Independent Verification Report
31 December 2018

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

INDEPENDENT VERIFICATION REPORT

To the shareholders of Técnicas Reunidas, S.A.:

Pursuant to Article 49 of the Code of Commerce, we have verified, under a limited assurance scope, the accompanying Non-financial information statement ("NFIS") for the year ended 31 December 2018 of Técnicas Reunidas, S.A. and its subsidiary companies (hereinafter Técnicas Reunidas, the entity or the Group) which forms part of Técnicas Reunidas´ Consolidated Directors' Report (hereinafter CDR).

Responsibility of the Board of Directors

The preparation of the NFIS included in Técnicas Reunidas' Consolidated Directors' Report and the content thereof are the responsibility of the Board of Directors of Técnicas Reunidas, S.A. The NFIS has been drawn up in accordance with the provisions of current commercial legislation and with the Sustainability Reporting Standards of the Global Reporting Initiative ("GRI Standards") described in line with the details provided for each matter in the table included in the section 13.8 named "About the non-financial information statement - Table of compliance with Spanish Law 11/2018, of 28 December", in the accompanying NFIS.

This responsibility also includes the design, implementation and maintenance of internal control considered necessary to allow the NFIS to be free of material impropriety, due to fraud or error.

The directors of Técnicas Reunidas are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the NFIS is obtained.

Our independence and quality control

We have complied with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA") which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and therefore has in place a global quality control system which includes documented policies and procedures related to compliance with ethical requirements, professional standards and applicable legal and regulatory provisions.

The engagement team has been formed by professionals specialized in non-financial information reviews and specifically in information on economic, social and environmental performance.

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

Our responsibility

Our responsibility is to express our conclusions in an independent limited verification report based on the work carried out in relation solely to FY 2018. The data relating to previous years were not subject to the verification envisaged in current commercial legislation. Our work has been carried out in accordance with the requirements laid down in the current International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and with the Guidelines for verification engagements on non-financial statements issued by the Spanish Institute of Auditors ("Instituto de Censores Jurados de Cuentas de España").

In a limited guarantee engagement, the procedures performed vary in terms of their nature and timing of execution, and are more restricted than those carried out in a reasonable guarantee engagement. Accordingly, the assurance provided is substantially lower.

Our work has consisted of posing questions to the Management and several Técnicas Reunidas' units that were involved in the preparation of the NFIS, in the review of the processes for compiling and validating the information presented in the NFIS and in the application of certain analytical procedures and review sampling tests, as described below:

- Meetings with Técnicas Reunidas personnel to ascertain the business model, policies and management approaches applied and the main risks related to these matters, and to obtain the information required for the external review.

- Analysis of the scope, relevance and integrity of the content included in the NFIS for 2018 based on the materiality analysis carried by Técnicas Reunidas, considering the content required under current commercial legislation.

- Analysis of the procedures used to compile and validate the information presented in NFIS for 2018.

- Review of information concerning risks, policies and management approaches applied in relation to material issues presented in the NFIS for 2018.

- Verification, by means of tests, through sample testing, of the information relating to the content of the NFIS for 2018 and its adequate compilation using data supplied by Técnicas Reunidas' information sources.

- Obtainment of a management representation letter from the management.

Basis for a conclusion with qualifications

According to the section "13.7.5 Tax information" of the NFIS, Técnicas Reunidas does not incorporate any information about the benefits per country required by Article 49.6 of the Code of Commerce, as it is considered that this information detailed per country may affect negatively Técnicas Reunidas' commercial interests.

Conclusion with qualifications

Based on the procedures performed and on the evidence we have obtained, except for the effects of the matters described in the paragraph “Basis for a conclusion with qualifications”, no additional aspects have come to our attention that would lead us to believe that the NFIS of Técnicas Reunidas, S.A. and its subsidiaries for the year ended 31 December 2018 has not been prepared, in all relevant aspects, in accordance with the terms of current mercantile legislation and following the criteria of GRI standards as described for each area in the table included in section 13.8 named “13.8 About the Non-financial information statement - Table of compliance with Spanish Law 11/2018, of 28 December” of the above mentioned NFIS.

Use and distribution

This report has been drawn up in response to the requirement laid down in current Spanish commercial legislation and therefore might not be suitable for other purposes or jurisdictions.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Pablo Bascones

28 February de 2019

TECNICAS REUNIDAS

DECLARATION OF RESPONSIBILITY
2018 ANNUAL FINANCIAL REPORT

The Board of Directors:

José Lladó Fernández-Urrutia Chairman	Juan Lladó Arburúa 1st Deputy Chairman
Fernando de Asúa Álvarez 3rd Deputy Chairman	Juan Miguel Antoñanzas Pérez-Egea 2nd Deputy Chairman
Javier Gómez-Navarro Navarrete Director	Álvaro García-Agulló Lladó Director
José Manuel Lladó Arburúa Director	Javier Alarcó Canosa Director
Petra Mateos-Aparicio Morales Director	Pedro Luis Uriarte Santamarina Director
William Blaine Richardson Director	Adrian Lajous Vargas Director
Jose Nieto de la Cierva Director	Alfredo Bonet Baiget Director

They state that, to the best of their knowledge, the separate financial statements of Técnicas Reunidas, S.A. (balance sheet, income statement, statement of changes in equity, statement of cash flows, notes to the financial statements and management report), as well as the consolidated financial statements with its subsidiaries (consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements), for the year ended 31 December 2018, prepared by the Board of Directors at its meeting held on 27 February 2019, prepared in accordance with the accounting principles applicable and set forth on 75 and 154 sheets of ordinary paper for the separate financial statements and consolidated financial statements, respectively, written only on the obverse side, all of which were signed by the non-director Secretary to the Board, Laura Bravo Ramasco, present fairly the equity, financial position and results of operations of Técnicas Reunidas, S.A. and subsidiaries, and that the management reports supplementing the separate and consolidated financial statements include a fair analysis of the performance, business results and position of Técnicas Reunidas, S.A. and its subsidiaries, together with a description of the main risks and uncertainties faced by the Company.
Certificate issued by the Secretary: “In compliance with section 253.2 of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*), it is placed on record that the director William B. Richardson was not present to authorise the financial statements for issue, as he was absent from the meeting on duly justified grounds.

Madrid, 27 February 2019

TECNICAS REUNIDAS

DECLARATION OF RESPONSIBILITY
2018 ANNUAL FINANCIAL REPORT

The Board of Directors:

José Lladó Fernández-Urrutia Chairman	Juan Lladó Arburúa 1st Deputy Chairman
Fernando de Asúa Álvarez 3rd Deputy Chairman	Juan Miguel Antoñanzas Pérez-Egea 2nd Deputy Chairman
Javier Gómez-Navarro Navarrete Director	Álvaro García-Agulló Lladó Director
José Manuel Lladó Arburúa Director	Javier Alarcó Canosa Director
Petra Mateos-Aparicio Morales Director	Pedro Luis Uriarte Santamarina Director
William Blaine Richardson Director	Adrian Lajous Vargas Director
Jose Nieto de la Cierva Director	Alfredo Bonet Baiget Director

They state that, to the best of their knowledge, the separate financial statements of Técnicas Reunidas, S.A. (balance sheet, income statement, statement of changes in equity, statement of cash flows, notes to the financial statements and management report), as well as the consolidated financial statements with its subsidiaries (consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements), for the year ended 31 December 2018, prepared by the Board of Directors at its meeting held on 27 February 2019, prepared in accordance with the accounting principles applicable and set forth on 75 and 154 sheets of ordinary paper for the separate financial statements and consolidated financial statements, respectively, written only on the obverse side, all of which were signed by the non-director Secretary to the Board, Laura Bravo Ramasco, present fairly the equity, financial position and results of operations of Técnicas Reunidas, S.A. and subsidiaries, and that the management reports supplementing the separate and consolidated financial statements include a fair analysis of the performance, business results and position of Técnicas Reunidas, S.A. and its subsidiaries, together with a description of the main risks and uncertainties faced by the Company.
Certificate issued by the Secretary: "In compliance with section 253.2 of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*), it is placed on record that the director William B. Richardson was not present to authorise the financial statements for issue, as he was absent from the meeting on duly justified grounds.

Madrid, 27 February 2019