

OFFERING MEMORANDUM

19,507,964 shares of



TECNICAS REUNIDAS

(Incorporated in Spain)

Offering price: €17.00 per share

This is an initial public offering of 19,507,964 shares of Técnicas Reunidas, S.A. (“**Técnicas Reunidas**”, the “**Company**”, “**we**” or “**us**”), a *sociedad anónima* organized under the laws of Spain.

The offering comprises (i) a public offering by the Company on behalf of the selling shareholders of 1,950,797 shares, by way of a separate Spanish language prospectus, to retail investors in Spain and Andorra; (ii) a domestic institutional offering by the Company on behalf of the selling shareholders of 4,876,991 shares to institutional investors in Spain and Andorra; and (iii) an international institutional offering by the Company on behalf of the selling shareholders of 12,680,176 shares to institutional investors outside Spain and Andorra. This offering memorandum relates only to the domestic institutional offering and the international institutional offering. We will not receive any of the proceeds from the offering. The public offering price is €17.00 per share.

Prior to this offering, there has been no public market for our shares. We will apply to list our shares on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges (the “**Spanish Stock Exchanges**”) and to have our shares quoted on the Automated Quotation System of the Spanish Stock Exchanges. We expect our shares to be listed and quoted on the Spanish Stock Exchanges on or about June 21, 2006 under the symbol “**TRE**”. We expect our shares to be delivered on or about June 23, 2006.

Certain of our selling shareholders have granted the Joint Global Coordinators and Joint Bookrunners (as defined herein), on behalf of the Managers (as defined herein) and the Spanish institutional underwriters, an over-allotment option to purchase up to 1,950,796 additional shares. See “Transfer and Selling Restrictions” for additional information about eligible offerees and transfer restrictions.

Investing in our shares involves certain risks. See “Risk Factors” beginning on page 11.

Our shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), and are being offered or sold within the United States only to qualified institutional buyers (“**QIBs**”) in reliance on Rule 144A (“**Rule 144A**”) under the Securities Act and outside the United States in reliance on Regulation S (“**Regulation S**”) under the Securities Act.

The Managers expect to deliver the shares through the book-entry facilities of Iberclear on or about June 19, 2006.

Joint Global Coordinators and Joint Bookrunners

Merrill Lynch International

BBVA

Co-Lead Manager

Cazenove

This offering memorandum is dated June 19, 2006

IMPORTANT INFORMATION

YOU SHOULD READ THE ENTIRE OFFERING MEMORANDUM AND, IN PARTICULAR, “RISK FACTORS” BEGINNING ON PAGE 11 OF THIS OFFERING MEMORANDUM WHEN CONSIDERING AN INVESTMENT IN THE SHARES.

Merrill Lynch International and Banco Bilbao Vizcaya Argentaria, S.A. (the “**Joint Global Coordinators**” and “**Joint Bookrunners**”) and JPMorgan Cazenove Limited (collectively with the Joint Global Coordinators, the “**Managers**”) make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the Managers or their affiliates or advisers. The information contained in this offering memorandum is accurate only as of the date of this offering memorandum, regardless of the time of delivery of this offering memorandum or any sale of the shares.

No person has been authorized to give any information or to make any representations other than those contained in this offering memorandum and, if given or made, such information or representations must not be relied on as having been authorized by us or the Managers.

The contents of this offering memorandum are not to be construed as legal, financial or tax advice. You should consult your own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice.

Apart from the responsibility and liabilities, if any, which may be mandatorily imposed on them by the regulatory regime in Spain, neither the Managers nor the selling shareholders accept responsibility whatsoever for the contents of this offering memorandum nor for any other statement made or purported to be made by any of them or on their behalf in connection with us, the selling shareholders or the shares. The Managers and the selling shareholders accordingly disclaim all and any liability whether arising in tort or contract (save as referred to above) that they might otherwise have in respect of this offering memorandum or any such statement.

The distribution of this offering memorandum and the offer of the shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this offering memorandum comes should inform themselves about and observe any such restrictions, including those set out in the section “Transfer and Selling Restrictions”. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Other than in Spain, no action has been or will be taken in any jurisdiction by us, the selling shareholders or the Managers that would permit a public offering of the shares or possession or distribution of an offering memorandum in any jurisdiction where action for that purpose would be required. This offering memorandum may not be used for, or in connection with, and does not constitute an offer to, or solicitation by, anyone in any jurisdiction in which it is unlawful to make such an offer or solicitation. Persons into whose possession this offering memorandum may come are required by us, the selling shareholders and the Managers to inform themselves about and to observe these restrictions. Neither we, nor the selling shareholders, nor any of the Managers accepts any responsibility for any violation by any person, whether or not such a person is a prospective purchaser of our shares, of any of these restrictions.

In connection with the offering, each of the Managers and any of their respective affiliates acting as an investor for its own account, may take up the shares and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references in this document to the shares being offered or placed should be read as including any offering or placement of such securities to the Managers and any relevant affiliate acting in such capacity. The Managers do not intend to disclose the extent of any such

investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In connection with the offering, Merrill Lynch International, as stabilizing manager, may, for stabilization purposes, over-allot shares up to a maximum of 10% of the total number of shares comprising the offering. Including for the purposes of covering over-allotments (if any) and short positions resulting from stabilization transactions, certain of our selling shareholders have granted an option to the Managers and the Spanish institutional underwriters, acting severally and not jointly, to procure purchasers for or, failing which, to purchase additional shares representing a maximum of 10% of the total number of shares comprising the offering (the “**Over-Allotment Shares**”) at the offer price. See “Principal and Selling Shareholders”. The over-allotment arrangements are exercisable in whole or in part from time to time on one or more occasions, upon notice by Merrill Lynch International, at any time on or before the 30th calendar day after the commencement of trading of the shares on the Spanish Stock Exchanges and the Automated Quotation System. Any Over-Allotment Shares made available pursuant to the over-allotment arrangements will rank *pari passu* in all respects with the shares, including for all dividends and other distributions declared, made or paid on the shares, will be purchased on the same terms and conditions as the shares being sold in the offering and will form a single class for all purposes with the other shares.

In connection with the offering, Merrill Lynch International as stabilizing manager, or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot and effect other transactions with a view to supporting the market price of the shares at a level higher than that which might otherwise prevail in the open market. Merrill Lynch International is not required to enter into such transactions and such transactions may be effected on any stock market, over-the-counter market or otherwise. Such stabilizing measures, if commenced, may be discontinued at any time and may only be taken during the period from and including commencement of trading on the Spanish Stock Exchanges and the Automated Quotation System up to and including the 30th calendar day thereafter. Except as required by law or regulation, neither Merrill Lynch International nor any of its agents intends to disclose the extent of any over allotments and/or stabilization transactions under the offering.

CERTAIN UNITED STATES MATTERS

The shares are being offered: (i) to retail investors in Spain and Andorra by way of a separate Spanish language prospectus, (ii) to institutional investors outside the United States in reliance on Regulation S; and (iii) to QIBs within the United States in reliance on Rule 144A. You are hereby notified that sellers of the shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Shares and the distribution of this offering memorandum, see “Transfer and Selling Restrictions”.

The shares have not been approved or disapproved by the United States Securities and Exchange Commission (the “SEC”), any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offence in the United States.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO EEA INVESTORS

This offering memorandum has been prepared on the basis that all offers of shares using this offering memorandum will be made pursuant to an exemption under the Directive 2003/71 EC (the “**Prospectus Directive**”), as implemented in member states of the European Economic Area (the “**EEA**”), from the requirement to produce a prospectus for offers of shares. Accordingly, any person making or intending to make any offer within the EEA of shares that are subject of the offering contemplated in this offering memorandum should only do so in circumstances in which no obligation arises for the selling shareholders, any of the Managers or us to produce a prospectus for such offer. None of the selling shareholders, the Managers or us has authorized, and none of us authorizes, the making of any offer of shares through any financial intermediary, other than offers made by Managers that constitute the final placement of shares contemplated in this offering memorandum.

CERTAIN SPANISH MATTERS

This offering memorandum has not been registered with the *Comisión Nacional del Mercado de Valores* (“**CNMV**”). A *Folleto Informativo* relating to the Spanish retail offering has been registered with the CNMV on June 2, 2006. Copies of the *Folleto Informativo* are available for inspection at the offices of the CNMV, at the offices of the Spanish Stock Exchanges, at the offices of the persons named as Managers and Spanish institutional underwriters in the *Folleto Informativo* and at our principal executive offices. This offering memorandum is an advertisement and is not a prospectus for the purposes of the Prospectus Directive.

CERTAIN U.K. MATTERS

This offering memorandum is only being distributed in the United Kingdom to, and is only directed at, (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act (2000) (Financial Promotion) Order 2005 (the “**Order**”), (ii) persons falling within Article 49(2)(a) to (d) of the Order, and (iii) other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “**relevant persons**”). This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering

memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

ENFORCEMENT OF CIVIL LIABILITIES

We are a Spanish company, and the majority of our assets are located within Spain. In addition, substantially all of our directors and executive officers reside or are located within Spain. As a result, investors may not be able to effect service of process outside Spain upon us or these persons, or to enforce judgments obtained against us or these persons in foreign courts predicated solely upon the civil liability provisions of non-Spanish securities laws.

In addition, there is doubt as to whether the courts of Spain would recognize or enforce judgments of United States courts obtained against us or our directors or officers based on the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, there is also doubt as to whether the courts of Spain would be prepared to entertain an original action in Spain based on those laws. We have been advised by our United States and Spanish legal advisors that the United States and Spain do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not based on United States federal or state securities laws, would not be automatically enforceable in Spain.

FORWARD-LOOKING STATEMENTS

Some of the statements under “Summary”, “Business”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this offering memorandum may include forward-looking statements that reflect our current views with respect to future events and financial performance. These statements include, in particular, descriptions of expected developments in the markets in which we operate contained under “Business—Trends in our Principal Markets”, descriptions of revenues expected to be derived from projects currently in our backlog as discussed under “Business—Backlog” and elsewhere and anticipated completion dates for projects as described under “Business—Our Business Divisions”. Statements that include the words “expect”, “intend”, “plan”, “project”, “anticipate”, “will” and similar statements of a future or forward-looking nature identify forward-looking statements.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements, including, but not limited to, the following:

- developments in world economy and in the oil, gas and power markets in particular;
- adjustments to our backlog and project cancellations;
- our ability to manage our growth effectively;
- our ability to accurately estimate the costs of, or execute within budget, our fixed-price contracts;
- our reliance on third party subcontractors and manufacturers; and
- counterparty credit risk to which we are subject.

In addition, the various factors described under “Risk Factors” could impact our ability to perform our obligations or to realize revenues in accordance with our expectations.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from those projected. Any forward-looking statements in this offering memorandum reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. You should specifically consider the risks and other factors identified in this offering memorandum, which could easily cause actual results to differ, before making an investment decision.

These forward-looking statements speak only as of the date of this offering memorandum. Subject to any continuing obligations under Spanish, US federal and other applicable securities laws and regulations and by applicable stock exchange regulations, we undertake no obligation to publicly update or review any forward-looking statement contained in this offering memorandum, whether as a result of new information, future developments or otherwise.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

In making an investment decision, you must rely upon your examination of us and the financial statements included elsewhere in this offering memorandum.

The financial information included in this offering memorandum (i) as of and for the years ended December 31, 2003 and 2004 has been derived from our audited consolidated financial statements as of and for each of the years then ended (collectively, the “**Spanish GAAP Financial Statements**”) prepared in accordance with generally accepted accounting principles in Spain (“**Spanish GAAP**”); (ii) as of and for the year ended December 31, 2005 has been derived from our audited consolidated statutory annual accounts as of and for the year then ended prepared in accordance with the International Financial Reporting Standards (“**IFRS-EU**”) issued by the International Accounting Standards Board (“**IASB**”), as adopted by the European Commission for use in the European Union (collectively, the “**IFRS-EU Financial Statements**”); and (iii) as of and for the year ended December 31, 2004 has been derived from our IFRS-EU Financial Statements, as discussed below. We have also provided limited interim financial information with respect to the three months ended March 31, 2006. This financial information has not been audited.

The Spanish GAAP Financial Statements and the IFRS-EU Financial Statements are contained elsewhere in this offering memorandum and should be read in conjunction with the relevant notes and auditor’s reports thereto.

PricewaterhouseCoopers Auditores, S.L. has not issued an auditors’ report in respect of our consolidated financial statements under IFRS-EU as of and for the year ended December 31, 2004. However, a reconciliation of 2004 financial data under IFRS-EU and Spanish GAAP is contained in note 5 to the IFRS-EU Financial Statements. This note is covered by the audit report relating to the IFRS-EU Financial Statements.

We are not required to present a cash flow statement in our Spanish GAAP Financial Statements, and Spanish GAAP does not provide any standards for the preparation of a cash flow statement. However, in order to provide investors with information regarding our cash flows, we have included elsewhere in this offering memorandum unaudited consolidated cash flow information for the years ended December 31, 2003 and 2004, in each case prepared in accordance with the IAS 7 format using Spanish GAAP. This unaudited consolidated cash flow information was derived from our consolidated cash flow statement, which includes a review report, included elsewhere in this offering memorandum.

In this offering memorandum, we do not present three years of consolidated historical financial information prepared under a common set of accounting principles. As a result, the discussion and analysis of our results of operations and financial condition in this offering memorandum compares our results of operations (i) for the years ended December 31, 2003 and 2004 under Spanish GAAP and (ii) for the years ended December 31, 2004 and 2005 under IFRS-EU. There are significant differences between Spanish GAAP and IFRS-EU and, as a consequence, results of operations under Spanish GAAP are not necessarily comparable with results of operations under IFRS-EU. For more information regarding the differences between Spanish GAAP and IFRS-EU, see note 5 to the IFRS-EU Financial Statements. IFRS-EU differs in certain significant respects from US GAAP. For a discussion of certain significant differences between IFRS-EU and US GAAP as they apply to us, see “Annex A—Summary of Certain Significant Differences Between IFRS-EU and US GAAP”. You should consult your own professional advisers for an understanding of the differences between US GAAP, Spanish GAAP and IFRS-EU and how those differences might affect the financial information included in this offering memorandum.

The financial information included in this offering memorandum is not intended to comply with the reporting requirements of the US Securities and Exchange Commission, or SEC. Compliance with such requirements would require the presentation of US GAAP financial information, the modification or exclusion of certain information presented in this offering memorandum and the presentation of certain other information not included in this offering memorandum. The Directors' Report referred to in the Auditor's Report for the IFRS-EU Financial Statements has not been included in this offering memorandum. The scope of the work performed by our auditors on the Directors' Report for 2005 is described in paragraph 4 of the Auditor's Report to our IFRS-EU annual accounts and has not been conducted in accordance with professional auditing standards generally accepted in the United States or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Backlog

We use the measurement of revenue backlog as a key performance indicator for our business. Backlog consists of the estimated revenue attributable to the uncompleted portion of turnkey contracts and variation orders. To the extent work advances on these contracts, revenue is recognized and removed from the backlog.

Backlog, as of a specified date, includes only the expected future revenue attributable both to contracted and to awarded projects for which all pre-conditions to entry into the contract for the project have been met. In the case of joint ventures, backlog includes only the proportionate share of joint venture contracts that is attributable to us. Backlog does not include any revenue expected to arise from contracts where the client has no commitment to draw upon our services. Projects in our infrastructure and industries division are not included in our backlog. Projects in our infrastructure and industries business division generally have a life of less than one year, and, because of the short-term nature of these projects, we believe that it is not appropriate to include them in our backlog.

Our backlog figures and figures in this offering memorandum relating to the amount we intend to invoice for specific projects are not accounting figures but have been derived from our contracts and from management estimates. The actual amount that we will invoice is uncertain until we actually invoice for our work, as the income we will receive from a project depends on certain factors that cannot be determined until after a project is completed. As a result, the amount we actually invoice for a project may differ from the amounts referred to in this offering memorandum.

Backlog is not an audited measure. Other companies in the contracting industry may calculate this measure differently. For further information about our backlog, see "Business—Backlog".

EBITDA and Other Non-GAAP Measures

Parts of this offering memorandum contain information regarding earnings before interest, tax, depreciation and amortization ("EBITDA"), net cash position and other ratios and other percentages, which are sometimes used by investors to evaluate the efficiency of a company's operations and its ability to employ its earnings toward repayment of debt, capital expenditures and working capital requirements.

This information is not intended to comply with SEC reporting requirements. Compliance with such requirements would require the modification or exclusion of such financial measures. EBITDA, net cash position and other ratios and certain other items included herein are non-GAAP measures and an investor should not consider such items as alternatives to the applicable GAAP measures. In particular, an investor should not consider EBITDA and net cash position as measures of our financial performance or liquidity under Spanish GAAP or IFRS-EU or as an alternative to profit for the period, operating profit or any other performance measures derived in accordance with Spanish GAAP

or IFRS-EU or as an alternative to cash generated from operating, investing or financing activities as measures of our liquidity as derived in accordance with Spanish GAAP or IFRS-EU.

Specifically for purposes of both IFRS-EU and Spanish GAAP, EBITDA represents operating profit after adding back depreciation and amortization. We use EBITDA internally as a supplemental measure of our operational performance and believe EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the engineering and construction industry.

We believe this measure, which our management uses to evaluate our performance, will assist investors in understanding of our results of operations by providing additional information on what we consider to be one of the principal drivers of our results of operations. EBITDA should be viewed as supplemental to our consolidated financial statements included elsewhere in this offering circular. Because EBITDA is not prepared in accordance with either Spanish GAAP or IFRS-EU, but is derived from accounting records prepared based on Spanish GAAP and IFRS-EU, respectively, investors are cautioned not to place undue reliance on such information.

EBITDA has its own limitations as an analytical tool and it should not be considered in isolation from, or as a substitute for, analysis of our results of operations, as reported under IFRS-EU or Spanish GAAP. Some of the limitations of EBITDA as a measure are as follows:

- it does not reflect cash actually received or paid, because revenue and expense recognition policies do not relate to the actual date of receipt or payment;
- it does not reflect finance charges, or the cash requirements necessary to service interest or principal repayments, on our debt;
- it does not reflect finance income arising from our cash balances;
- it does not reflect taxes;
- it does not reflect minority interests;
- although depreciation and amortization are non-cash charges, the tangible or intangible assets being depreciated, amortised or impaired will often have to be replaced in the future; and
- other companies in the engineering and construction industry may calculate this measure differently, limiting its usefulness as a comparative measure.

Share Data

Share data contained in this offering memorandum is calculated based on the number of our shares outstanding following our share split that occurred in May 2006. The total number of outstanding shares following the share split was 55,896,000.

Currencies

Unless otherwise indicated, all references in this offering memorandum to “EUR”, “euro” or “€” are to the lawful currency of the European Monetary Union, of which Spain is a member, and all references to “US dollar”, “US\$” or “\$” are to the lawful currency of the United States of America.

AVAILABLE INFORMATION

We have agreed that, for so long as any shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

MARKET AND INDUSTRY DATA

Market data and certain industry forecast data used in this offering memorandum were obtained from market research, publicly available information and industry publications. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, our internal estimates and market research, while believed to be reliable and accurately extracted by us for the purposes of this offering memorandum, have not been independently verified.

EXCHANGE RATES

The following table sets forth, for the periods indicated, information concerning the noon buying rate for euro, expressed in US dollars per €1.00. The rates set forth below are provided solely for your convenience and were not used by us in the preparation of our Spanish GAAP Financial Statements or our IFRS-EU Financial Statements included elsewhere in this offering memorandum. The “noon buying rate” is the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that euro could have been, or could be, converted into US dollars at that rate or at any other rate.

	Period End	Noon Buying Rate		
		Average ⁽¹⁾	High	Low
Year:				
2001	0.8901	0.8909	0.9535	0.8370
2002	1.0485	0.9495	1.0485	0.8594
2003	1.2597	1.1411	1.2597	1.0361
2004	1.3538	1.2478	1.3625	1.1801
2005	1.1842	1.2400	1.3476	1.1667
2006 (through May 31, 2006)	1.2833	1.2336	1.2888	1.1860
Month:				
January 2006	1.2158	1.2126	1.2287	1.1980
February 2006	1.1925	1.1940	1.2100	1.1860
March 2006	1.2139	1.2028	1.2197	1.1886
April 2006	1.2124	1.2273	1.2624	1.2091
May 2006	1.2833	1.2767	1.2888	1.2607

(1) The average of the noon buying rate for euro on the last day of each full month during the relevant year or each business day during the relevant month.

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SUMMARY

This summary highlights certain aspects of our business, the offering and our consolidated financial information and must be read as an introduction to this offering memorandum. Any decision to invest in the shares should be based on a consideration of the offering memorandum as a whole, including any amendment and supplement thereto.

In this offering memorandum, all references to “**Técnicas Reunidas**”, the “**Company**”, “**we**”, “**us**”, “**our**” and “**ours**” refer to Técnicas Reunidas, S.A. or Técnicas Reunidas, S.A. and its subsidiaries, depending on the context.

Summary of the Business

Overview

We are an international general contractor, engaged in the engineering, design and construction of oil and gas facilities (including oil refineries, petrochemical plants, oil production and natural gas facilities), power plants and infrastructure projects. We have a substantial client base located throughout the world, including many national oil companies (NOCs), multinational companies and Spanish companies. We are the leader in engineering and construction in the oil and gas sector in Spain as measured by revenues, according to OilGas magazine’s annual reports during the past five years. We believe we are one of the leaders in Europe in the construction of oil and gas facilities, and one of the world leaders in the refining sector. We had revenues of €685.1 million (IFRS-EU) in the year ended December 31, 2005 and a backlog of €2,815 million as of March 31, 2006.

Our Business Divisions

We concentrate our business on three large divisions: (i) oil and gas, which is subdivided into refining and petrochemicals and upstream and natural gas; (ii) power; and (iii) infrastructure and industries. In each of these divisions, we offer our clients a broad range of engineering and construction services for industrial facilities. These services range from feasibility studies or basic and conceptual engineering to complete performance of large and complex turnkey projects, including detailed engineering, procurement, construction, commissioning, start-up and training.

Oil and Gas

Our oil and gas business division comprises two subdivisions: (i) refining and petrochemicals and (ii) upstream and natural gas. This division accounted for 71.0% of our revenues in 2005 and is our most important business division. We believe that we are today one of the leading European construction companies in the oil and gas sector by number of references, know-how and projects in which we currently participate. In the refining and petrochemicals subdivision, since we began operations, we have designed and constructed approximately 80% of Spanish refining capacity, and in total have built approximately 300 refinery units and more than 90 petrochemical units throughout the world. With respect to the upstream and natural gas subdivision, since 2000, by taking advantage of our extensive international business, our presence in growth markets for this business subdivision, and the capacity and experience in management of large turnkey projects, the number of projects in this division and their significance have become a larger part of our total business volume. Our backlog in the oil and gas division as of March 31, 2006 was €2,617 million.

Power

This division accounted for 18.0% of our revenues during 2005. Over the past 35 years in this field, we have undertaken more than 45 million hours of engineering, purchasing management, construction and start-up work in connection with our participation in projects with total installed

capacity of more than 30,000 MW in 25 countries. Although our current focus is mainly on combined cycle facilities, our experience includes conventional thermal, integrated gasification and combined cycle (IGCC) plants, nuclear, cogeneration, solar, fuel cell, solid waste and biomass plants and various energy efficiency projects. Our backlog in our power division as of March 31, 2006 was €198 million.

Infrastructure and Industries

Our infrastructure and industries business division accounted for 11.0% of our revenues in 2005. Our clients in this division are both public authorities and private industrial clients, and the services in this division cover all matters related to engineering, supply of equipment and materials, construction and, occasionally, operation of facilities. The lines of business in this division include engineering and construction of facilities, mainly in Spain, relating principally to water treatment, desalination, airports, ports and recycling.

Our Key Strengths

We believe that we have the following key strengths:

- ***Favorable Market Conditions.*** The demand for oil and gas products continues to increase mainly as a result of the growth of the world economy. We believe that the oil and gas industry has under-invested in infrastructure over several decades and that investment is needed to cope with growing demand. In addition, we believe that additional investment in facilities is also required to meet increasingly strict environmental laws and regulations, as well as to meet the need for more complex refineries that are able to process heavy crude oils.

We believe that the strong financial position currently enjoyed by oil and gas companies, together with a favorable commodity price and refining margin outlook for these companies, will encourage significant investment in oil and gas infrastructure over the next several years.

We believe the number of contractors that are able to respond to this demand with sufficient know-how, technological skills and experience is limited and that new competition will be limited given the high barriers to entry.

- ***Strong Positioning in the Market.*** We believe that we have a very strong position in the oil and gas sector that should enable us to capture additional business from the expected growth in the market described above. Our strong position is based on our client base, the markets in which we operate, the products that we offer and, especially, our almost 50 years of experience and strong track record in the oil and gas sector. We believe that our extensive experience in the management of turnkey projects provides us with a competitive advantage over other oil and gas engineering and construction companies that are less specialized and over potential new competitors. Due to our smaller size as compared to our larger competitors, we believe that by taking advantage of the expected growth, we are in a position to increase our revenues at a faster rate than our larger competitors.

Our track record in the oil and gas sector includes turnkey projects in a large number of countries for a diverse group of clients.

- Markets in which we have undertaken projects include: Saudi Arabia, Kuwait, Oman, Chile, Mexico, Vietnam, China, Turkey, Algeria and Spain, among others.
- Our clients include, among others: NOCs (Saudi Aramco, Kuwait Oil Company (KOC), Petroleum Development of Oman (PDO), Oman Refining Company (ORC), Sonatrach, Tüpras, Sinopec, Enap, Pemex, Petrovietnam); multinational companies (Shell, BASF, BP, Total, GE, ExxonMobil, UBE Industries (UBE), Anglo American);

and Spanish companies (Repsol-YPF, Cepsa, Gas Natural, Endesa, Unión Fenosa, Iberdrola, Enagás).

Many of our clients are repeat customers, which we believe demonstrates the quality of our execution and the strength of the relationships that we have developed with our clients.

We also believe we are strongly positioned in the Spanish power sector as a result of our extensive track record in that industry, which includes 15 combined cycle gas turbine (CCGT) plants and (partly through our association with Empresarios Agrupados) eight nuclear plants. Additionally, we also believe we have a strong position in certain niche markets of the infrastructure segment in Spain where we are present and believe that we have built strong relationships with our client base in the sector, which mainly consists of public authorities.

- ***Ability to Improve Our Margins.*** As described above, we believe that demand for our engineering and construction services in the oil and gas sector is increasing and that the number of competitors with sufficient know-how, technical skills and experience is limited. As a result of the current demand-supply dynamics, our negotiating position has improved. In addition, due to our current positioning, we believe we can develop a selective bidding strategy to reduce annual bidding costs, while focusing on the most commercially attractive projects. Lastly, we believe that our cost base is adequate to support a larger revenue base than that of 2005 and therefore any revenue increases in future periods could result in margin improvement.
- ***Sustainable Business.*** Our management team has significant experience in our areas of operation, and has been instrumental in the growth we have experienced over the past few years. We have a diversified business, with an extensive track record in projects covering various products for a variety of clients in various markets. This diversification allows us to be flexible and respond to changes in demand. We also have extensive experience evaluating and managing the risks associated with turnkey contracts and we believe we have developed robust risk management procedures to limit our exposure to these risks.

Furthermore, the infrastructure and industries division, which focuses on a relatively larger number of smaller projects, has provided us with a source of relatively stable income.

Our Strategy

Specific steps that form part of our strategy include the following:

- ***Invest in our Positioning.*** We intend to make a special effort to gain access to and focus on our target markets, establishing relationships with leading clients in the sectors in which we operate, while investing continuously in know-how and differentiating ourselves from our competitors.
- ***Excellence in the Execution of Awarded Projects.*** We intend to focus on executing projects on schedule, maintaining high health and safety standards and meeting or exceeding our client's expectations. We intend to do so while ensuring expected profitability.
- ***Leverage on our Credentials with Existing Clients.*** We intend to leverage our proven quality of execution of projects with existing clients that are considering awarding new projects, focusing on contracting for those projects from a better negotiation position, while also leveraging our reputation, track record and credentials with existing clients to gain access to new clients and markets.

- ***Maintaining our Leading Position in Spain.*** Spain represents a natural source of business for us, and we intend to continue strengthening our privileged positioning with our Spanish clients.
- ***Development of our Infrastructure and Industries Business Division.*** We intend to develop our infrastructure and industries business division, which we believe represents a source of stability to our business model that is compatible with the growth provided by our backlog of turnkey projects in the oil and gas and power sectors.

Our Management Priorities

As we seek to implement our strategy over the coming years, we expect our management's attention to be focused on the following four areas in particular:

- ***Execution of Projects in our Current Backlog.*** We are committed to taking steps to ensure the projects in our backlog are successfully completed on schedule, within budget and following our quality standards, in order to achieve profitable growth. Successful execution of contracted projects is essential to continue receiving new awards in the future as reputation is essential in our business.
- ***Maintaining our Strong Commercial Focus.*** We will continue to analyze opportunities not only in our current markets, but also in other markets that could potentially be economically and strategically attractive, while also taking into account potential risks, competition and the investment that would be required to enter a particular market. We intend to focus on the Persian Gulf, Latin America, the Far East, the Mediterranean region (principally North Africa and Turkey) and Spain.

We also intend to focus on building strong relationships with current clients, while seeking to establish relationships with new clients.

The current market environment and our positioning allow us to be selective when bidding on new projects. We intend to carefully analyze potential opportunities and to place bids only on those projects that are attractive from a strategic and economic point of view.

- ***Managing Resources for Growth.*** We seek to manage our resources in a flexible and efficient way in order to be able to cope with the growth of our business, while completing projects within the established schedules and expected margins.

We intend to further implement flexible recruiting initiatives, including recruiting efforts in our headquarters and in our satellite engineering centers. In addition, we are increasing our use of subcontractors to support the execution of specific projects.

At the same time, we seek to retain our current employees by offering different retention initiatives including on-the-job training programs, and by offering competitive salaries and benefits. We believe our reputation and growth prospects make us an attractive employer.

- ***Continuing the Development of Know-How.*** Know-how is our critical asset for future growth. Through our almost 50 years of operations, we have acquired substantial know-how in different products with different clients and in different markets, and we believe that this provides us with a strong competitive advantage with respect to new competitors. We intend to continue to develop our know-how base through the execution of new projects in our different business divisions.

Summary of the Offering

The Company	Técnicas Reunidas, S.A.
The selling shareholders	Banco Industrial de Bilbao, S.A., Bilbao Vizcaya Holding, S.A., Aragonesas Promoción de Obras y Construcciones, S.L., Araltec, S.L., Marta Lladó Arburúa, María Lladó Arburúa, Pilar Lladó Arburúa, José Manuel Lladó Arburúa and Juan Lladó Arburúa. See “Principal and Selling Shareholders”.
The offering	1,950,797 shares to retail investors in Spain and Andorra, 4,876,991 shares to institutional investors in Spain and Andorra and 12,680,176 shares to institutional investors outside Spain and Andorra. These shares will be offered (i) in the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act) (“QIBs”) in reliance on Rule 144A under the Securities Act and (ii) outside the United States in compliance with Regulation S under the Securities Act.
Total number of shares offered in the offering	19,507,964 shares are being offered by the selling shareholders.
Number of issued and outstanding shares before and after the offering	Information relating to the shares issued and outstanding immediately before and after the offering is set forth below (assuming the over-allotment option is not exercised).

	Before Offering		After Offering	
Shares held by selling shareholders	51,587,904	92.29%	32,079,940	57.39%
Shares held by other shareholders	4,308,096	7.71%	4,308,096	7.71%
Shares held by the Company	—	—	—	—
Shares held by the public	—	—	19,507,964	34.90%
Total shares	<u>55,896,000</u>	<u>100.00%</u>	<u>55,896,000</u>	<u>100.00%</u>

Assuming that the over-allotment option is exercised in full, the number of shares held by the public after the offering will be 21,458,760, representing 38.39% of our total issued share capital. See “Principal and Selling Shareholders” and “Description of the Shares”.

Over-allotment option	Certain of our selling shareholders, have granted an over-allotment option to the Managers and the Spanish institutional underwriters, exercisable within 30 calendar days from the date on which our shares are listed on the Spanish Stock Exchanges and quoted on the Automated Quotation System of the Spanish Stock Exchanges, to purchase up to 1,950,796 additional shares (10% of the total number of shares initially offered in the offering), including for the purposes of covering over-allotments, if any, and short positions
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resulting from stabilization transactions. See “Principal and Selling Shareholders” and “Plan of Distribution”.

Pricing of offering The offering price is €17.00 per share.

Listings and quotation We have applied to list our shares on the Spanish Stock Exchanges and to have our shares quoted on the Automated Quotation System of the Spanish Stock Exchanges. We expect the shares to be admitted to listing on the Spanish Stock Exchanges and to be quoted on the Automated Quotation System of the Spanish Stock Exchanges on or about June 21, 2006 under the symbol “TRE”. If the shares are not listed on the Spanish Stock Exchanges and quoted on the Automated Quotation System of the Spanish Stock Exchanges by July 21, 2006, the offering will terminate, the shares will be returned to the selling shareholders and the purchase price will be returned to the purchasers, together with interest.

Controlling shareholder Upon the closing of the offering, José Lladó Fernández-Urrutia and persons and entities related to him will own, directly or indirectly an aggregate of at least 44.0% of our share capital if the over-allotment option is fully exercised or 46.1% of our share capital if the over-allotment option is not exercised. In addition, when taking into account voting agreements that are in existence once the offering is completed, they will control, collectively, 51.6% of the voting rights in the Company if the over-allotment is fully exercised or 53.7% if the over-allotment option is not exercised. See “Principal and Selling Shareholders”.

Dividends and dividend policy . . The shares offered hereby will be eligible for any dividends paid or declared hereafter, beginning with the year ended December 31, 2006 and subsequent periods. In the absence of unforeseen circumstances and subject to the following, our current objective is to declare a dividend with respect to the financial year ended 2006 and in subsequent financial periods equal to between 40% and 50% of our IFRS-EU net profits for the relevant period in each of the relevant periods. We cannot guarantee that this objective will be met with respect to the 2006 financial year or with respect to any subsequent financial year. Achieving this objective is conditioned on a periodic review of our effective growth, our business needs and our growth strategy, which may require the reinvestment of our profits into our business. The declaration and payment of dividends is also subject to the approval of shareholders.

Voting rights Each share entitles the holder to one vote. See “Description of the Shares—Shareholders’ Meetings and Voting Rights”.

Use of proceeds We are not selling any shares in the offering. As a result, we will not receive any proceeds from the sale of shares by the selling shareholders in the offering. For more information on the selling shareholders, see “Principal and Selling Shareholders”.

Lock-up agreements:

Company lock-up We have agreed that, without the prior written consent of the Joint Global Coordinators and Joint Bookrunners on their own behalf

and on behalf of the other Managers, we will not, during the period commencing on the date of the Underwriting Agreement (as defined in “Plan of Distribution”) and ending 180 days after the date of the listing of the shares on the Spanish Stock Exchanges, (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, pledge, lend or otherwise transfer or dispose of any shares or any shares convertible into or exercisable or exchangeable for shares or file any registration statement under the Securities Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the shares, whether any such swap or transaction described in (i) or (ii) above is to be settled by delivery of shares or such other shares, in cash or otherwise. The foregoing will not apply in certain limited circumstances.

Existing shareholders lock-up . Our shareholders have agreed to similar restrictions during the same period, except that the restrictions shall not apply to the sale of shares in the offering, including in connection with the over-allotment option as well as in other limited circumstances.

Payment and settlement We expect the shares to be delivered against payment of the offering price on the settlement date, which is anticipated to be on or about June 23, 2006, to the accounts of purchasers through the book-entry facilities of Iberclear.

Summary Consolidated Financial Information

The following tables set forth our summary consolidated financial data for the period or dates indicated. The summary historical consolidated income statement and balance sheet data as of and for the years ended December 31, 2003 and 2004 in accordance with Spanish GAAP has been derived from our audited Spanish GAAP Financial Statements. The summary historical consolidated income statement, balance sheet and cash flow statement data as of and for the years ended December 31, 2004 and 2005 in accordance with IFRS-EU has been derived from our audited IFRS-EU Financial Statements. The summary consolidated cash flow information for the years ended December 31, 2003 and 2004 prepared in accordance with IAS 7 “cash flow statement” format under Spanish GAAP is derived from our unaudited consolidated cash flow statements.

PricewaterhouseCoopers Auditores, S.L. has not issued an auditors’ report in respect of our consolidated annual accounts under IFRS-EU as of and for the year ended December 31, 2004. However, a reconciliation of 2004 financial data under IFRS-EU and Spanish GAAP is contained in note 5 to the IFRS-EU Financial Statements. This note is covered by the audit report relating to the IFRS-EU Financial Statements. IFRS-EU also differs in certain significant respects from US GAAP. For a discussion of certain significant differences between IFRS-EU and US GAAP as they apply to us, see “Annex A—Summary of Certain Significant Differences Between IFRS-EU and US GAAP”. You should consult your own professional advisers for an understanding of the differences among US GAAP, Spanish GAAP and IFRS-EU and how those differences might affect the financial information included in this offering memorandum.

The summary historical consolidated financial data in the tables below should be read in conjunction with Spanish GAAP Financial Statements and the IFRS-EU Financial Statements, including the notes thereto, included elsewhere in this Offering Memorandum. See also, “Presentation of Financial and Other Information”, “Risk Factors”, “Capitalization”, “Selected Financial Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

	For the year ended December 31,	
	2004	2005
	(euro in millions)	
Income Statement Data:		
IFRS-EU		
Total operating income	564.8	690.3
Total operating expenses	(546.3)	(661.7)
Operating profit	18.5	28.6
Profit attributable to company shareholders	23.2	41.2
	For the year ended December 31,	
	2003	2004
	(euro in millions)	
Spanish GAAP		
Total operating income	526.6	601.2
Total operating expenses	(507.9)	(578.4)
Operating profit	18.7	22.8
Profit attributable to the parent company	36.4	30.1

	As of the year ended December 31,	
	2004	2005
	(euro in millions)	
Balance Sheet Data:		
IFRS-EU		
Total non-current assets	46.0	59.4
Total current assets	472.4	797.9
Total assets	518.4	857.3
Total equity	140.5	146.6
Total equity and liabilities	518.4	857.3

	As of the year ended December 31,	
	2003	2004
	(euro in millions)	
Spanish GAAP		
Total non-current assets ⁽¹⁾	22.3	28.5
Total current assets	513.4	539.9
Total assets	535.7	568.4
Total capital and reserves	121.1	142.9
Total liabilities ⁽²⁾	535.7	568.4

	As of the year ended December 31,	
	2004	2005
	(euro in millions)	
Cash Flow Data:		
IFRS-EU		
Net cash generated from operating activities	(6.7)	130.4
Net cash generated from investing activities	(9.7)	(10.2)
Net cash generated from financing activities	(19.5)	22.6

	As of the year ended December 31,	
	2003	2004
	(euro in millions) (unaudited)	
Spanish GAAP		
Net cash generated from operating activities	37.3	(6.5)
Net cash generated from investing activities	12.6	(9.8)
Net cash generated from financing activities	(10.0)	(19.6)

Other Data:

IFRS-EU

	As of the year ended December 31,	
	2004	2005
	(euro in millions, except per share data)	
EBITDA (unaudited) ⁽³⁾	21.0	31.3
Earnings per share (in euro) ⁽⁴⁾	0.42	0.74

Spanish GAAP

	As of the year ended December 31,	
	2003	2004
	(euro in millions, except per share data)	
EBITDA (unaudited) ⁽³⁾	21.3	25.8
Earnings per share (in euro) ⁽⁴⁾	0.65	0.54

(1) Includes uncalled share capital, fixed assets, goodwill on consolidation and deferred expenses.

(2) Includes capital and reserves.

(3) For purposes of both IFRS-EU and Spanish GAAP, EBITDA represents operating profit after adding back depreciation and amortization. We use EBITDA internally as a supplemental measure of our operational performance and believe EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the engineering and construction industry. EBITDA is not a standardized measure under Spanish GAAP, IFRS-EU or elsewhere and should not be considered in isolation or as a substitute for, or as an alternative to, profit for the period, operating profit, or any other performance measures derived in accordance with IFRS-EU or Spanish GAAP or as an alternative to cash generated from operating, investing or financing activities as measures of our liquidity derived in accordance with Spanish GAAP or IFRS-EU. For additional information regarding EBITDA, see "Presentation of Financial and Other Information".

EBITDA has been calculated as follows:

	Spanish GAAP		IFRS	
	For the year ended December 31,		For the year ended December 31,	
	2003	2004	2004	2005
	(euro in millions)		(euro in millions)	
Operating profit	18.7	22.8	18.5	28.6
Depreciation and amortization	2.6	3.0	2.5	2.7
EBITDA	21.3	25.8	21.0	31.3

(4) Earnings per share is calculated by dividing profit attributable to company shareholders (under IFRS-EU) and profit attributable to the parent company (under Spanish GAAP) by the number of ordinary shares currently outstanding (55,896,000). Because we have not issued any stock options or convertible securities that may cause our shares to be diluted, there is no need to present the diluted earnings per share.

RISK FACTORS

Any investment in our shares is subject to a number of risks. Before making any investment decision, you should carefully consider the factors and risks attaching to an investment in our shares, together with all other information contained in this document including, in particular, the risk factors described below. The information below does not purport to be exhaustive. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also have an adverse effect on our business. This offering memorandum also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including the risks we face that are described below and elsewhere in this offering memorandum. You should consider carefully whether an investment in our shares is suitable for you in light of the information in this document and your personal circumstances.

Risks Relating to Our Business

Demand for our services is linked to the level of expenditure by the oil and gas industry, which is not easy to predict.

Demand for the majority of our services is dependent on expenditure by the oil and gas industry for the exploration, development and production of crude oil and natural gas reserves. Lower expenditure by the oil and gas industry may result in lower demand for our services, which would adversely affect our financial performance and condition.

Demand for our services may be influenced by cyclical patterns in the oil and gas industry. The diversity of our operations may not protect us against such fluctuations in demand. Increases in oil and gas prices may not result in an increase in demand for our services. On the other hand, a substantial or extended decline in oil or gas prices would be likely to cause a decline in the demand for our services.

We are dependent on a relatively small number of contracts and a small number of clients.

Due to the size of many of our projects, the majority of our revenues in any year may be derived from a relatively small number of contracts. In addition, clients are increasingly developing larger, more technically complex turnkey projects and increasingly awarding the entire contract to a single project contractor, which has led us to bid for and win larger and more highly integrated projects. Consequently, should any one of those contracts prove less profitable than expected or be loss-making, our results of operations and financial and condition could be materially adversely affected.

In addition, we may have multiple projects for the same client. Consequently, one client may comprise a significant percentage of our backlog, and the loss of such a client may have a material adverse effect on our financial performance and condition.

We have international operations that could be subject to foreign economic, social and political uncertainties. Unexpected and adverse changes in the foreign countries in which we operate could result in project disruptions, increased costs and potential losses.

Our business is subject to changing domestic and international economic, social and political conditions that are beyond our control. We expect that a significant portion of our revenues and profits will continue to come from international projects for the foreseeable future.

Operating in the international marketplace exposes us to a number of risks, including:

- disruption to operations, including strikes, work stoppages, civil actions and political interference;
- difficulties in collecting accounts receivable;

- restrictions on the movement of funds, limitations on the repatriation of funds or expropriation of assets;
- the imposition of sanctions on other countries by the US government, the Spanish government, the EU Commission or other governments;
- limited access to markets for a period of time;
- changes in, or difficulty complying with, laws and regulations in various countries, including tax and labor laws, including the requirement by local labor regulation to use local employees; and
- restrictive actions by local governments including the imposition of tariffs and limitations on imports or exports.

To the extent that our international business is affected by unexpected and adverse foreign economic, social and political conditions, we may experience project disruptions and losses. Any project disruptions and losses could significantly reduce our revenues and profits and have a material adverse effect on our financial performance and condition.

We may not be able to manage our future growth effectively.

Our business and operations have experienced significant growth. Our total operating income was €526.6 million in 2003 and €601.2 million in 2004 (in accordance with Spanish GAAP) and €564.8 million in 2004 and €690.3 million in 2005 (in accordance with IFRS-EU). Our total operating income for the year ended December 31, 2005 represents a historical maximum for us, as is the case for our €2,815 million backlog as of March 31, 2006. We cannot guarantee that we will be able to maintain our current level of growth in the future. The growth in our business has placed, and is likely to continue to place, significant demands on our operational and financial infrastructure as well as upon management.

We have attempted to address the additional requirements that have arisen as a result of its international expansion. In this context, we are now in the process of upgrading our information technology systems. If these measures prove ineffective, our financial performance and operating results could be materially and adversely affected. We may have to incur further expenditure to address additional operational and financial control requirements and management resources would be required to be committed to their implementation.

We may be unable to attract and retain sufficient skilled personnel to meet our operational requirements.

Demand for engineers, production operations personnel and other technical and management personnel is currently high worldwide and supply is limited, particularly in the case of skilled and experienced engineers and field service personnel. This shortage is exacerbated by local employment legislation, such as the European Working Time Directive, which may limit the hours and shift patterns that employees in the European Union can work. This shortage may also be exacerbated where we are required by national oil companies or local employment legislation to use local workforces, which may not be fully trained.

Our ability to meet our operational requirements and our future growth and profitability may be adversely affected by the scarcity of engineers, production operations personnel and other technical and management personnel or by potential increases in compensation costs associated with attracting and retaining these employees.

We are dependent on our senior personnel.

We depend on the continued services of our senior personnel, including our directors and senior management. Our existing senior personnel possess marketing, engineering, project management,

financial and administrative skills that are important to the operation of our business. If we lost or suffered an extended interruption in the services of a substantial number of our senior personnel, or if we were unable to attract or develop a new generation of senior management, our financial performance and condition could be adversely affected. We do not, in certain cases, have the benefit of restrictive covenants in relation to our existing senior personnel, and where we do, such restrictive covenants may not be enforceable.

Our backlog is subject to unexpected adjustments and project cancellations and is, therefore, an uncertain indicator of future earnings.

As of March 31, 2006, our backlog was €2,815 million. We cannot guarantee that the revenues expected to be derived from our backlog will be realized or, if realized, will result in profits. Projects may remain in our backlog for an extended period of time. In addition, project cancellations, scope adjustments or changes in our corporate strategy may occur from time to time and may impact contracts reflected in our backlog. Backlog reductions adversely affect the revenue and profit we actually receive from contracts reflected in our backlog.

We may not accurately estimate the costs of, or execute within budget, our fixed-price contracts or may fail to complete contracts on time.

Under our fixed-price contracts (including our major engineering, procurement and construction contracts), we perform services and provide our products at a fixed price. If our cost estimate for a contract is inaccurate, or if we do not execute the contract within its cost estimates, cost overruns may cause the project to be less profitable than expected or cause us to incur losses. Because we are party to a small number of important contracts, inaccurate cost estimates or cost overruns on an individual contract may have a material negative impact on our financial condition and results of operations.

Our projects generally involve complex design and engineering, significant procurement of equipment and supplies and extensive construction management. Many projects are ongoing for extended time periods, often in excess of two years, from initial award through to completion. During this time, we may encounter difficulties in the design or engineering of the project or in equipment and supply delivery, schedule changes or other disruption or delays (such as political or local community unrest or prolonged adverse weather conditions). In addition, during the execution of a project the price of new materials may be subject to significant change, increasing the costs of equipment and materials. Some of these circumstances may be beyond our control and may impact our ability to complete the project within budget or in accordance with the original delivery schedule.

We may not be able to rely on third-party manufacturers and sub-contractors.

We rely on third-party equipment manufacturers and sub-contractors in the execution of our projects. To the extent that we cannot engage sub-contractors or acquire equipment or materials according to our plans and budgets, our ability to complete a project in a timely fashion or at a profit may be impaired. Delays in completion of a fixed-price project or failure to meet certain key performance indicators may in certain circumstances increase the costs of supplies and may also expose us to liquidated damages, which may have an adverse effect on our financial conditional results of operations.

The success of our temporary relationships with joint ventures and other analogous business associations depends on the satisfactory performance by our partners of their obligations.

We enter into various joint ventures as part of our business. The success of our joint ventures depends, in large part, on the satisfactory performance of our joint venture partners of their joint venture obligations. If our joint venture partners fail to satisfactorily perform their joint venture

obligations as a result of financial or other difficulties, the joint venture may be unable to adequately perform or deliver its contracted services. Under these circumstances, we may be required to make additional investments and provide additional services to ensure the adequate performance and delivery of the contracted services. The failure of our joint venture partners to perform their joint venture obligations could impose on us additional financial and performance obligations that could result in reduced profits or, in some cases, significant losses for us with respect to the joint venture, which in turn could adversely affect our results of operations and financial condition.

A failure on our information technology systems could have a negative impact on the management of our business.

We use a complicated information technology system for the engineering, supply and management of projects, and this system forms an important part of our business. We consider our information technology systems to be a strategic management tool in the different business processes. Despite our efforts to protect our information systems, these systems are sensitive to, and may be damaged or interrupted by, human errors, natural disasters, telecommunication failures, interruptions, sabotage, computer viruses, intentional acts of vandalism and other events. Any errors, losses, damages or interruptions incurred by our information technology systems could have a negative impact on the management of our business activities and our financial controls and, as a result, could negatively affect our results of operations and financial condition.

Competition in our industries could result in reduced profitability and loss of clients.

Contracts for our services and products are generally awarded following a competitive process. While service quality, technological capacity and performance and personnel, as well as reputation and experience, are considered in client decisions, price is the major factor in most tender awards. In the past, our industry has been frequently subject to price competition. If price competition were to intensify in the future, the number of tenders meeting our margin criteria could decline and our financial performance could be adversely affected.

We are subject to counterparty credit risk.

We provide our services to a variety of contractual counterparties and are therefore subject to the risk of non-payment for services we have rendered or non-reimbursement of costs we have incurred. The contracts which we enter into may require significant expenditure by us prior to the receipt of relevant payments from the client and expose us to potential credit risk.

We have entered into and may continue to enter into contracts with a joint venture or other analogous business relationship that is legally distinct from its owners. Unless we can obtain appropriate guarantees, we are subject to a higher risk of non-payment when our contractual counterparty is a special purpose joint venture or consortium vehicle that does not have significant financial resources of its own.

Failure by any of our contractual counterparties to pay for services provided or reimburse costs incurred by us could have a material adverse effect on our cash flow, results of operations and financial condition.

Our revenues, cash flow and earnings may vary in any period depending on a number of factors, including our performance on major contracts.

Revenues from our turnkey contracts are recognized using the percentage-of-completion (POC) method of accounting. This involves us recognizing an increasing proportion of contract revenues and costs as the contracts progress towards 100% completion. Our estimated profit margins are based on the estimates of contract revenues and costs and may be different from actual revenues or costs for the contract.

In addition, although revenue and earnings may be recognized for accounting purposes, these do not represent cash received or paid by us. Accordingly, there will be a difference between our revenues and cash flows for any particular reporting period.

Cancellations of projects or delays in completion of contracts could affect the revenue, cash flow and earnings actually received from contracts reflected in our backlog and in certain circumstances may result in a reduction, reversal or elimination of previously reported revenues or earnings. Accordingly there can be no assurance that the revenues projected in our backlog will be realized. In the event of project cancellation, we may have no contractual right to the total revenues reflected in our backlog other than reimbursement for certain costs. If we were to experience significant cancellations or delays of projects in our backlog, our results of operations and financial condition would be adversely affected.

Our future business performance depends on the award of new contracts.

A substantial portion of our revenues is directly or indirectly derived from large-scale projects. It is generally very difficult to predict whether and when we will be awarded such contracts, as they frequently involve a lengthy and complex bidding and selection process. This process is affected by a number of factors, such as market conditions, financing arrangements and governmental approvals. Furthermore, clients are increasingly developing larger, more technically complex turnkey projects and increasingly awarding the entire contract to a single project contractor. Competitors may, whether through consolidation or growth, present more credible integrated and/or lower-cost solutions than we do, causing us to win fewer tenders. If we do not succeed in being awarded the contracts for these projects, we could fail to increase, or even maintain, our volume of order intake, net sales and net income, which may have a material adverse effect on our results of operations and financial condition.

Our long-term contracts present risks and may be subject to early termination, variation or non-reward.

In addition to risks that are generally present in the engineering and construction business (including the volatility of the business, geo-political changes, changes in applicable foreign laws and regulations and the impact of inflation), large turnkey projects carry some additional risks. Managing large-scale integrated projects may also increase the potential relative size of cost overruns and negatively affect our operating margins. Additionally, while in the past we selectively bid on only those contracts related to the portions of a project that we believed had the best potential for high margins, large-scale integrated projects may cause us to take potentially lower-margin portions of a project as well.

Certain of the contracts into which we enter are long-term contracts, which are performed over a period that often exceed two years. Any of our contracts may be terminated earlier than expected, either unilaterally within the relevant notice periods or upon default or non-performance by us. In such circumstances, we may not have the right to receive compensation. Certain of the long-term contracts give clients the right to terminate at any time on short notice with little or no penalty. Termination rights may also arise as a result of change of control or a change in the level of holdings in our issued share capital. The early termination, non-renewal or variation of our contracts would have an adverse impact on our results of operations and financial condition as they may not be replaced by new contracts.

Our contracts may also be subject to variation in the scope of work to be performed, requiring us to provide a different level of service, which may result in reduced profitability or losses.

We are subject to the complexity of running a business with a wide geographical spread.

We operate our business in a range of international locations and we expect to expand our business into new locations in the future. The management of a business with a wide geographic spread is complex. For example, the distance from our principal locations can make it more difficult to

implement and impress upon local workforces our policies on matters such as health and safety and can present challenges in the supervision of our sub-contracted employees. Failure to deliver consistently high standards across all of our fields of operations could create risks for us, including reputational risks that could adversely affect our financial condition or results of operations.

We are exposed to foreign exchange risk.

Our reporting currency is euro. We enter into numerous contracts or incur substantial costs denominated in currencies other than euro and may not always be able to match revenues with costs denominated in the same currency. While we attempt to minimize our exposure to such foreign exchange risks through measures such as buying the local currencies of our suppliers and vendors forward at the date on which the contract is awarded, there can be no assurance that we will be able to successfully hedge our foreign exchange risks.

In addition, because many of our projects are denominated in currencies other than euro (which is our reporting currency), differences in exchange rates may have a significant impact when revenues or expenses from those contracts are translated to euro and recorded in our accounting records.

We may not be able to obtain financing on favorable terms.

We perform our business activities in a sector that requires a high level of financing specifically in order to be able to purchase and supply the equipment and materials required to carry out projects and to provide guarantees to clients and suppliers. For this reason, we need to secure important sources of financing to be able to continue performing our business activities. To date we have been able to finance our activities on acceptable terms, but we cannot ensure that this will remain the same in the future. Our ability to obtain financing depends on a large number of factors, which we are not always able to control, for example general economic conditions, the availability of funds at financial institutions or EU Monetary Policy. Should we fail to obtain additional financing or if we obtain financing but on unfavorable terms, this could limit the growth potential of our business, in which case our operating results or financial position could be negatively affected.

We conduct our operations within a strict health and safety regime. Failure to comply with the relevant regulations could adversely affect our reputation and future revenues.

We are subject to various and different local regulations and strict health and safety regimes, governing the full spectrum of our operations in each country in which we operate. We may be exposed to fines, penalties or prosecutions by governmental authorities in respect of non-compliance with applicable regulations. We may also be exposed to contractual damages or be required to indemnify others in connection with violations of health and safety laws and regulations. Failure to comply with relevant health and safety regulations could result in delays in the completion of projects or the accomplishment of milestones, which could lead to unanticipated expenses associated with a project, including contractual liquidated damages, which could have a negative impact on our results of operations and financial condition. In addition, failure to comply with contractual or regulatory obligations in the area of health and safety could adversely affect our reputation. This, in turn, could adversely affect our future revenue and profits, and our ability to generate new business.

We could be subject to substantial liability claims due to the hazardous nature of our business.

Many of our services are carried out in hazardous environments, such as oil, gas and power development and production installations, and we engineer and construct large industrial facilities in which system failure can be disastrous. An accident or a service failure can cause personal injury, loss of life, damage to property, equipment or the environment, consequential losses and suspension of operations. We may also be liable for acts and omissions of sub-contractors or joint venture partners,

which cause such loss or damage. Our insurance and our contractual limitations on liability may not adequately protect us against liability for such events, including events involving pollution, or against losses result from business interruption. In addition, indemnities that we receive from sub-contractors may not be easily enforced if the relevant sub-contractors do not have adequate resources. Moreover, we may not be able to maintain insurance at levels that we deem adequate or ensure that every contract contains adequate limitations on liabilities. Any claims made under our insurance policies are likely to cause our premiums to increase. Any future damage caused by our products or services that are not covered by insurance, are in excess of policy limits, are subject to substantial deductibles or are not limited by contractual limitations of liability could adversely affect our results of operations and financial condition.

We conduct our business within a strict environmental regime and may be exposed to potential liabilities and increased compliance costs.

We incur, and expect to continue to incur, capital and operating costs to comply with environmental laws and regulations in each country in which we operate. The technical requirements of environmental laws and regulations are becoming increasingly expensive, complex and stringent. These laws may provide for strict liability for damage to natural resources or threats to public health and safety. Strict liability can render a party liable for environmental damage whether or not negligence or fault on the part of that party can be shown. Some environmental laws provide for joint and several strict liability for remediation of spills and releases of hazardous substances. Governmental authorities may seek to impose fines or penalties on us, or revoke or deny issuance or renewal of operating permits, for failure to comply with applicable laws and regulations. In addition, certain of our contracts subject us to possible claims if we fail to meet certain environmental standards, which may be more stringent than those imposed under the regulatory regime in force in the relevant country of operation.

Our business often involves working around and with volatile, toxic and hazardous substances and other highly regulated materials, the improper characterization, handling or disposal of which could constitute violations of applicable laws and/or regulations and result in criminal and civil liabilities. Environmental laws and regulations generally impose limitations and standards for certain pollutants or waste materials and require us to obtain permits and comply with various other requirements.

Stricter enforcement of existing laws and regulations, the introduction of new laws and regulations, the discovery of previously unknown contamination or the imposition of new or increased requirements could require us to incur costs or become the basis of new or increased liabilities that could reduce earnings and cash available for operations. In addition, stricter enforcement of environmental laws or regulations could cause our clients to reduce or cease their investments in a particular jurisdiction.

We may be subject to claims for professional errors and omissions.

Engineering and construction services involves the risk of contractual and professional errors and omissions and other liability claims, as well as adverse publicity that may adversely affect our results of operations and financial condition. We may not be able to maintain or obtain adequate insurance coverage at rates we consider reasonable or we may take the decision not to insure such risks. Even in the event coverage is obtained, claims may exceed such insurance coverage.

Liability to clients under warranties may materially and adversely affect our earnings.

We provide warranties as to the services we provide and as to the proper operation and adherence to specifications of the engineering and construction services equipment we design, modify or construct. Failure of this equipment to operate properly or to meet specifications may increase our costs by requiring additional engineering resources and services, replacement of parts and equipment or monetary reimbursement to a client. Furthermore, these failures may cause significant and costly

damage to the equipment. To the extent that we incur substantial warranty claims in any period, our reputation, ability to obtain future business and results of operations and financial condition could be materially and adversely affected.

Changes in applicable law or regulations may have a negative impact on our business.

The large turnkey projects we undertake can continue for several years and, therefore, may be affected by changes in applicable law or regulations both in Spain and in other countries.

Our profitability depends to a certain extent on the amount of direct and indirect taxes applicable to the services we provide and the revenues we obtain in the areas in which we operate. An increase in these taxes could have an adverse effect on our financial condition and results of operations. For example, in order to efficiently carry out a number of significant projects both inside and outside of Spain, we establish temporary relationships between our subsidiaries or with other companies (*uniones temporales de empresas* or UTEs) and other analogous business relationships. We take advantage of a tax exemption provided for in the revised Spanish corporate tax law with respect to benefits obtained by UTEs or analogous business relationships that operate outside Spain. These exemptions are subject to modification in the future. Any such modification could result in material increases in our tax liabilities and could have a negative impact on our financial condition and results of operations.

We have been, and may continue to be, involved in litigation.

In the ordinary course of business, we have been, and may from time to time in the future be named as a defendant in legal actions in connection with the activities we carry out. These actions may include employment-related claims and contractual disputes (including claims by subcontractors) or claims for personal injury or property damage that occurs in connection with services performed relating to project or construction sites. Any litigation could have adverse financial consequences for us, and we may not have adequately reserved for the potential losses associated with litigation payments not otherwise covered by insurance. Litigation also involves a diversion of management time from the day-to-day running of the business. A negative outcome with respect to litigation in which we could be involved at some point in the future could also adversely affect our reputation.

Risks Relating to the Shares

You may not be able to resell your shares at or above the offer price.

Prior to the offer, there has been no public market for our shares. After the offer, an active trading market for the shares may not develop or, if developed, may not be sustained.

The offer price for shares sold in the offering described herein will be determined by negotiation between the Company, the selling shareholders and the Managers and may not be indicative of the price at which the shares will trade following the completion of the offer. The market price of the shares could also be subject to significant fluctuation, and investors may not be able to resell their shares at or above the offer price.

Future sales of our common shares may cause our share price to decline.

If our current shareholders sell substantial amounts of our common shares in the public market following this offering, the market price of our common shares could decline. In addition, if we were to try to raise additional capital in the future by undertaking a public offering of our shares, the market price of our common shares could decline as a result. Based on shares outstanding as of the date of this offering memorandum, upon completion of this offering our current shareholders will have approximately 65.1% of our share capital assuming the over-allotment option is not exercised, and

approximately 61.6% of our share capital assuming full exercise of the over-allotment option. All of the common shares sold in this offering will be freely tradable in the public market.

We and our existing shareholders have each agreed that for a period commencing on the date of the Underwriting Agreement (as defined in “Plan of Distribution”) and ending 180 days following the date of the listing of the shares on the Spanish Stock Exchanges, not to sell or dispose of any shares without the prior written consent of the Joint Global Coordinators and Joint Bookrunners (except in certain limited circumstances specified in the Underwriting Agreement). See “Plan of Distribution”. Following the expiry of the lock-up period, our shareholders may sell shares in the public or private market, and we may undertake a public or private offering of shares.

Following the offering, our current shareholders will still own a significant percentage of our share capital and will have significant influence over us. The interests of our current shareholders could differ and even be adverse to the interests of our remaining shareholders following the offering.

Following completion of the offering, José Lladó Fernández-Urrutia and entities and persons related to him will own, collectively, directly or indirectly, at least 44.0% of our share capital if the over-allotment is fully exercised or 46.1% if the over-allotment option is not exercised. In addition, when taking into account voting agreements that are in existence, they will control, collectively, 51.6% of the voting rights in the Company if the over-allotment is fully exercised or 53.7% if the over-allotment option is not exercised. As a result, these shareholders will continue to exercise a significant influence over the Company. They will be able to use these powers to vote in their own interests, which may not be in line with the interests of the remaining shareholders. These powers will also permit them to have control with respect to any potential takeover bids relating to the Company. The interests of our current shareholders could differ and even be adverse to the interests of our remaining shareholders following the offering.

Pre-emptive rights may be unavailable to US holders.

In the case of a future increase of our registered share capital, existing shareholders are entitled to pre-emptive rights pursuant to Spanish law, unless waived by a resolution of the shareholders or, if such power has been delegated to the Board of Directors pursuant to a shareholders’ resolution, by a resolution of the Board of Directors. To the extent that pre-emptive rights are granted, US holders may not be able to exercise pre-emptive rights unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirements of the Securities Act is available.

We intend to evaluate at the time of any pre-emptive rights offering the costs and potential liabilities associated with the granting of pre-emptive rights to US holders of shares, as well as the benefits to our company of enabling the exercise by such holders of pre-emptive rights for the shares. In doing so, we will also evaluate any other factors we may consider appropriate at the time. It is possible that we, through a resolution of our shareholders or Board of Directors, may opt not to extend pre-emptive rights to US holders.

Our share price could be volatile and subject to sudden and significant declines.

The market price of our shares may be volatile. The price of shares sold in an offering is frequently subject to volatility for a period of time following the offering. Factors outside our control such as stock market analyst recommendations, developments affecting our industry and changes in conditions in the financial markets may have a significant effect on the market price of our shares. In addition, during the past few years, securities markets in Spain and worldwide have experienced significant volatility in prices and trading volumes. This volatility could have a negative impact on the market price of the shares, irrespective of our financial condition and results of operations. Investors may not be able to resell their shares at or above the offer price.

There is no established trading market for our shares.

This offering constitutes our initial public offering of shares, and no public market for our shares currently exists. We have applied to list our shares on the Spanish Stock Exchanges, and we expect our shares to be quoted on the Automated Quotation System of the Spanish Stock Exchanges on or about June 21, 2006, subject to completion of customary procedures in Spain. Any delay in the commencement of trading of our shares on the Spanish Stock Exchanges would impair the liquidity of the market for our shares and make it more difficult for holders to sell our shares. If our shares are not listed on the Spanish Stock Exchanges and quoted on the Automated Quotation System of the Spanish Stock Exchanges by July 21, 2006, this offering will terminate, the shares will be returned to the selling shareholders and the purchase price will be returned to the purchasers, together with accrued interest.

If our shares are listed on the Spanish Stock Exchanges and quoted on the Automated Quotation System of the Spanish Stock Exchanges, there can be no assurance that an active trading market for our shares will develop or be sustained after this offering is completed. The offer price for the shares may bear no relationship to the price at which the shares will trade upon completion of this global offering. If an active trading market does not develop or is not maintained, the liquidity and trading price of the shares could be seriously harmed.

If securities or industry analysts do not publish research or reports about our business, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our shares will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

The company is incorporated in Spain and, as a result, it may not be possible for shareholders to enforce civil liability provisions of the securities laws of the United States.

The company is incorporated under the laws of Spain and a substantial portion of our assets and all of our directors and officers are located outside the United States. As a result, it may not be possible for the holders of our common shares to effect service of process upon our directors or officers within the United States or to enforce against us or our directors or officers in the United States court judgments based on the civil liability provisions of the securities laws of the United States.

Investors from countries that do not use the euro as their currency face an additional risk due to changes in currency exchange rates.

The shares will be denominated in euro, and any future payment of dividends on the shares will be made only in euro. The euro has appreciated recently significantly with respect to principal world currencies, including the US dollar. The amount you will receive in US dollar or any other currency as a result of payment of dividends or the sale of your shares can be adversely affected by variations in the rate of exchange.

USE OF PROCEEDS

We are not selling any shares in the offering. As a result, we will not receive any proceeds from the sale of shares by the selling shareholders in the offering. For more information on the selling shareholders, see “Principal and Selling Shareholders”.

DIVIDEND POLICY

The following table shows the dividends declared by the Company for the three most recent fiscal years:

	Spanish GAAP For the year ended December 31,		IFRS-EU For the year ended December 31,	
	2003	2004	2004	2005
	(euro in millions, except share amounts, percentages and dividends declared per share)		(euro in millions, except share amounts, percentages and dividends declared per share)	
Consolidated net profit attributable to company shareholders ⁽¹⁾	36.4 ⁽²⁾	30.1	23.2	41.2
Total dividend amount	26.8	12.8	12.8	24.0 ⁽³⁾
Number of shares with dividend rights at time of dividend payment	931,600	931,600	931,600	931,600
Number of shares with voting rights at the date of this offering memorandum	55,896,000	55,896,000	55,896,000	55,896,000
Dividend declared per share (€/share), based on current number of outstanding shares	0.4795	0.2290	0.2290	0.4294
Pay out ⁽⁴⁾	73.6%	42.5%	55.2%	58.3%

(1) Refers to profit attributable to the parent company in the Spanish GAAP Financial Statements, and to profit attributable to company shareholders in the IFRS-EU Financial Statements.

(2) Includes profits from the sale of fixed assets in the amount of €16.6 million.

(3) Extraordinary dividends totaling €48.0 million are not included.

(4) Defined as the ratio of total dividend to net profit attributable to company shareholders.

In addition to the foregoing dividends, the Ordinary General Shareholders' Meeting of the Company held on March 9, 2006 approved an extraordinary distribution of reserves to shareholders in the amount of €48.0 million. This dividend was paid to shareholders that were holders of record prior to the date of this offering memorandum.

The shares offered hereby will be eligible for any dividends paid or declared hereafter, beginning with dividends for the year ended December 31, 2006 and subsequent periods.

In the absence of unforeseen circumstances and subject to the following, our current objective is to declare a dividend with respect to the financial year ended 2006 and in subsequent financial periods equal to between 40% and 50% of our IFRS-EU net profits for the relevant period in each of the relevant periods. We cannot guarantee that this objective will be met with respect to the 2006 financial year or with respect to any subsequent financial year. Achieving this objective is conditioned on a periodic review of our effective growth, our business needs and our growth strategy, which may require the reinvestment of our profits into our business. The declaration and payment of dividends is also subject to the approval of shareholders.

CAPITALIZATION

The table below sets out our capitalization as of March 31, 2006 on an actual basis. Our unaudited capitalization will not be affected by the offering as we will not receive any proceeds from the sale of shares by the selling shareholders contemplated in this offering memorandum.

You should read this table in conjunction with “Use of Proceeds”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Spanish GAAP Financial Statements and IFRS-EU Financial Statements included elsewhere in this offering memorandum.

	<u>As of March 31, 2006</u> (euro in millions) (unaudited)
Total non-current borrowings	0.0
Capital and reserves attributable to company shareholders	113.2
Minority interests	<u>1.8</u>
Total equity	<u>115.0</u>
Total capitalization	<u><u>115.0</u></u>

Since March 31, 2006, there have been no material changes to our capitalization. However, as discussed below, as a result of an ordinary dividend declared in May 2006, our capitalization has been reduced by €0.2 million.

In May 2006, we declared an ordinary dividend of €24.0 million with respect to the year ended December 31, 2005, of which €12.0 million had been booked as an interim dividend at December 31, 2005 and an additional €11.8 million of which had been booked as an interim dividend at March 31, 2006. Accordingly, €0.2 million of the declared dividend is not reflected in our capitalization at March 31, 2006. During the first quarter of 2006, we paid the first €12.0 million of this interim dividend. The remaining €12.0 million was paid thereafter. In addition, during the first quarter of 2006, we declared an extraordinary dividend of €48.0 million, which was booked during the first quarter of 2006 and paid after the end of the first quarter of 2006.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth our selected consolidated financial data for the period or dates indicated. The selected historical consolidated income statement and balance sheet data as of and for the years ended December 31, 2003 and 2004 in accordance with Spanish GAAP has been derived from our audited Spanish GAAP Financial Statements. The selected historical consolidated income statement, balance sheet and cash flow statement data as of and for the years ended December 31, 2004 and 2005 in accordance with IFRS-EU has been derived from our audited IFRS-EU Financial Statements. The selected consolidated cash flow information for the years ended December 31, 2003 and 2004 prepared in accordance with IAS 7 “cash flow statement” format under Spanish GAAP is derived from our unaudited consolidated cash flow statement.

PricewaterhouseCoopers Auditores, S.L. has not issued an auditors’ report in respect of our consolidated annual accounts under IFRS-EU as of and for the year ended December 31, 2004. However, a reconciliation of 2004 financial data under IFRS-EU and Spanish GAAP is contained in note 5 to the IFRS-EU Financial Statements. This note is covered by the audit report relating to the IFRS-EU Financial Statements. IFRS-EU also differs in certain significant respects from US GAAP. For a discussion of certain significant differences between IFRS-EU and US GAAP as they apply to us, see “Annex A—Summary of Certain Significant Differences Between IFRS-EU and US GAAP”. You should consult your own professional advisers for an understanding of the differences among US GAAP, Spanish GAAP and IFRS-EU and how those differences might affect the financial information included in this offering memorandum.

The selected historical consolidated financial data in the tables below should be read in conjunction with Spanish GAAP Financial Statements and the IFRS-EU Financial Statements, including the notes thereto, included elsewhere in this Offering Memorandum. See also, “Presentation of Financial and Other Information”, “Risk Factors”, “Capitalization” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

Income Statement Data:

	For the year ended December 31,	
	2004	2005
	(euro in millions)	
IFRS-EU		
Operating Income:		
Revenues	555.9	685.1
Other operating income	8.9	5.2
Total operating income	564.8	690.3
Operating Expenses:		
Raw materials and consumables	(322.9)	(380.1)
Employee benefit expense	(108.3)	(117.8)
Depreciation and amortization	(2.5)	(2.7)
Other operating expenses	(112.6)	(161.1)
Total operating expenses	(546.3)	(661.7)
Operating profit	18.5	28.6
Financial income/(expense)	(0.6)	6.8
Share in results obtained by associates	(0.6)	1.2
Profit before taxes	17.3	36.6
Profit for the year	23.3	41.6
Profit attributable to company shareholders	23.2	41.2

	For the year ended December 31,	
	2003	2004
	(euro in millions)	
Spanish GAAP		
Operating Income:		
Revenues	520.8	591.9
Other operating income	5.8	9.3
Total operating income	526.6	601.2
Operating Expenses:		
Materials consumed in operations and other external expenses	(304.0)	(344.5)
Employee benefit expense	(100.8)	(108.0)
Depreciation and amortization	(2.6)	(3.0)
Change in trade positions	0.8	(1.4)
Other operating charges	(101.3)	(121.5)
Total operating expenses	(507.9)	(578.4)
Operating profit	18.7	22.8
Financial income and expense	1.3	2.8
Amortization of goodwill on consolidation	(0.3)	(0.3)
Share in results obtained by associates	—	0.1
Extraordinary items	16.9	0.2
Consolidated profit before taxes	36.6	25.6
Profit attributable to the parent company	36.4	30.1

Balance Sheet Data:

	As of the year ended December 31,	
	2004	2005
	(euro in millions)	
IFRS-EU		
Assets:		
Non-current assets:		
Property, plant and equipment	10.2	16.3
Goodwill	1.2	1.2
Other intangible assets	3.2	3.5
Investments in associates	10.4	11.5
Deferred tax assets	19.3	24.0
Other non-current assets	1.7	2.9
Total non-current assets	46.0	59.4
Current assets:		
Inventories	2.7	5.9
Trade and other receivables	295.5	473.0
Other current assets	4.6	3.6
Financial assets at fair value through profits or loss	54.3	57.3
Cash and cash equivalents	115.3	258.1
Total current assets	472.4	797.9
Total assets	518.4	857.3

	As of the year ended December 31,	
	2004	2005
	(euro in millions)	
Equity:		
Share capital	5.6	5.6
Share premium account	8.7	8.7
Other reserves	1.1	1.1
Hedging reserve	1.1	(10.6)
Cumulative translation difference	(0.9)	(0.5)
Retained earnings	123.8	152.2
Interim dividend	—	(12.0)
Minority interests	1.1	2.1
Total equity	140.5	146.6
Liabilities:		
Non-current liabilities:		
Derivative financial instruments	—	0.7
Deferred tax liabilities	0.3	0.3
Other payables	0.9	0.9
Other liabilities	3.2	3.2
Employee benefit obligations	3.3	3.7
Provisions for liabilities and charges	33.2	45.2
Total non-current liabilities	40.9	54.0
Current liabilities:		
Trade payables	301.0	550.7
Current tax liabilities	7.0	17.3
Borrowings	18.8	54.2
Derivative financial instruments	3.5	11.5
Other payables	3.8	18.0
Provisions for liabilities and charges	2.9	5.0
Total current liabilities	337.0	656.7
Total liabilities	377.9	710.7
Total equity and liabilities	518.4	857.3

	As of the year ended December 31,	
	2003	2004
	(euro in millions)	
Spanish GAAP		
Assets:		
Uncalled share capital, fixed assets and deferred expenses	21.0	27.5
Goodwill on consolidation	1.3	1.0
Current assets:		
Inventories	8.8	10.9
Debtors	286.1	353.9
Current asset investments	182.0	121.3
Cash at bank and in hand	35.0	53.6
Prepayments and accrued income	1.5	0.2
Total current assets	513.4	539.9
Total assets	535.7	568.4
Liabilities:		
Capital and Reserves:		
Share capital	5.7	5.6
Share premium account	8.7	8.7
Other parent company reserves	59.0	60.9
Reserves in companies consolidated using the full or proportional method	29.8	36.6
Reserves in companies consolidated using the equity method	1.1	1.9
Differences on exchange	—	(0.9)
Profit/(loss) attributable to the parent company	36.4	30.1
Interim dividend	(19.6)	—
Total capital and reserves	121.1	142.9
Minority interests	0.9	1.1
Deferred income	3.9	3.7
Provisions	57.6	51.8
Creditors falling due after more than one year	0.5	0.7
Creditors falling due within one year	351.7	368.2
Total liabilities⁽¹⁾	535.7	568.4

Cash Flow Data:

	As of the year ended December 31,	
	2004	2005
	(euro in millions)	
IFRS-EU		
Net cash generated from operating activities	(6.7)	130.4
Net cash generated from investing activities	(9.7)	(10.2)
Net cash generated from financing activities	(19.5)	22.6

	As of the year ended December 31,	
	2003	2004
	(euro in millions) (unaudited)	
Spanish GAAP		
Net cash generated from operating activities	37.3	(6.5)
Net cash generated from investing activities	12.6	(9.8)
Net cash generated from financing activities	(10.0)	(19.6)

Other Data:

	As of the year ended December 31,	
	2004	2005
	(euro in millions, except per share data)	
IFRS-EU		
EBITDA (unaudited) ⁽²⁾	21.0	31.3
Earnings per share (in euro) ⁽³⁾	0.42	0.74

	As of the year ended December 31,	
	2003	2004
	(euro in millions)	
Spanish GAAP		
EBITDA (unaudited) ⁽²⁾	21.3	25.8
Earnings per share (in euro) ⁽³⁾	0.65	0.54

(1) Includes capital and reserves.

(2) For purposes of both IFRS-EU and Spanish GAAP, EBITDA represents operating profit after adding back depreciation and amortization. We use EBITDA internally as a supplemental measure of our operational performance and believe EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the engineering and construction industry. EBITDA is not a standardized measure under Spanish GAAP, IFRS-EU or elsewhere and should not be considered in isolation or as a substitute for, or as an alternative to, profit for the period, operating profit, any other performance measures derived in accordance with IFRS-EU or Spanish GAAP or as an alternative to cash generated from operating, investing or financing activities as measures of our liquidity derived in accordance with Spanish GAAP or IFRS-EU. For additional information regarding EBITDA, see "Presentation of Financial and Other Information".

EBITDA has been calculated as follows:

	Spanish GAAP For the year ended December 31,		IFRS For the year ended December 31,	
	2003	2004	2004	2005
	(euro in millions)		(euro in millions)	
Operating profit	18.7	22.8	18.5	28.6
Depreciation and amortization	2.6	3.0	2.5	2.7
EBITDA	21.3	25.8	21.0	31.3

(3) Earnings per share are calculated by dividing profit attributable to company shareholders (under IFRS-EU) and profit to the parent company (under Spanish GAAP) by the number of ordinary shares currently outstanding (55,896,000). Because we have not issued any stock options or convertible securities that may cause our shares to be diluted, there is no need to present the diluted earnings per share.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is based on our IFRS-EU Financial Statements and our Spanish GAAP Financial Statements. For a discussion of the differences between IFRS-EU and Spanish GAAP, see note 5 to our IFRS-EU Financial Statements.

The Spanish GAAP Financial Statements and the IFRS-EU Financial Statements included in this offering memorandum have been audited by PricewaterhouseCoopers Auditores, S.L., independent auditors, to the extent and for the periods indicated in their reports thereon. The auditors' opinion included in this offering memorandum in respect of the IFRS-EU Financial Statements has been issued only in respect of our consolidated financial statements prepared in accordance with IFRS-EU as of and for the year ended December 31, 2005. We have prepared consolidated financial statements under IFRS-EU as of and for the year ended December 31, 2004 and have included such financial information, for comparative purposes only, in our consolidated financial statement prepared in accordance with IFRS-EU as of and for the year ended December 31, 2005. PricewaterhouseCoopers Auditores, S.L. has not issued an auditors' report in respect of our consolidated financial statements under IFRS-EU as of and for the year ended December 31, 2004. However, a reconciliation of 2004 financial data under IFRS-EU and Spanish GAAP is contained in note 5 to the IFRS-EU Financial Statements. This note is covered by the audit report relating to the IFRS-EU Financial Statements.

In reviewing the information in this section, you should be aware that we are not presenting three years of consolidated historical financial information prepared under a common set of accounting principles. As a result, the discussion below compares our results of operations (i) for the years ended December 31, 2005 and 2004 under IFRS-EU and (ii) for the years ended December 31, 2004 and 2003 under Spanish GAAP. There are significant differences between Spanish GAAP and IFRS-EU and, as a consequence, results of operations under Spanish GAAP are not necessarily comparable with results of operations under IFRS-EU. IFRS-EU also differs in certain significant respects from US GAAP. For a discussion of certain significant differences between IFRS-EU and US GAAP as they apply to us, see "Annex A—Summary of Certain Significant Differences Between IFRS-EU and US GAAP". You should consult your own professional advisers for an understanding of the differences between US GAAP, Spanish GAAP and IFRS-EU and how those differences might affect the financial information included in this offering memorandum.

You should read the following information together with the sections entitled "Selected Consolidated Financial Information" and "Capitalization" and our consolidated financial statements and the related notes included in this offering memorandum. This discussion may contain forward-looking statements, including those described in the "Information Regarding Forward-Looking Statements" section above, that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of, among others, the factors described in the "Risk Factors" section above and elsewhere in this offering memorandum. Except as may be required by applicable law, we will not publicly update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Overview

We are an international general contractor, engaged in the engineering, design and construction of oil and gas facilities (including oil refineries, petrochemical plants, oil production and natural gas facilities), power plants and infrastructure projects. We have a substantial client base located throughout the world, including many NOCs, multinational companies and Spanish companies. We are the leader in engineering and construction in the oil and gas sector in Spain as measured by revenues, according to OilGas magazine's annual reports during the past five years. We believe we are

one of the leaders in Europe in the construction of oil and gas facilities, and one of the world leaders in the refining sector.

Factors Affecting our Business During the Periods under Review

The following are the key factors affecting our results during the periods under review:

Effect of our Turnkey Contracts

During the year ended December 31, 2005, most of our revenues were generated under turnkey projects. These turnkey projects generally have a long life from inception to completion, averaging between 28 and 36 months, and tend to move through three phases throughout their lives (engineering, procurement and construction). Turnkey projects tend to differ in the amount of revenues or costs they generate during any period depending on the phase(s) they are in during that period. In addition, turnkey projects can be priced in several different ways, for example using a fixed price or margin above cost (cost plus). The majority of our contracts during the periods under review and in our backlog are fixed-price contracts.

We recognize revenues on our turnkey projects using the percentage of completion (POC) method. This involves us recognizing an increasing proportion of contract revenues based on the percentage of completion. Generally speaking, the revenues recognized are based on estimates of contract revenues, costs incurred and profitability and may not reflect actual revenues or profits for the contract. In addition, although revenues and earnings may be recognized, these do not represent cash received by us. Because of the lag between recording of revenues and timing of invoicing, there will be a difference between our revenues and cash flows for any particular reporting period.

Taxation

When we undertake a project outside Spain, we generally seek to take advantage of special Spanish income tax exemptions by forming temporary project companies, called *uniones temporales de empresas* or UTEs, or analogous structures in connection with a project. Any profit generated outside of Spain by an UTE or an analogous structure is exempt from taxation in Spain. As a result of this advantageous tax treatment, a significant portion of our foreign profit is exempt from taxation in Spain. However, because a substantial portion of our costs are incurred in Spain, in certain years we generate losses for Spanish income tax purposes, which results in the creation of tax credits.

Growth of Our Business

We have experienced significant growth in our business over the past three years, and we are anticipating further growth. In anticipation of such growth, we have increased the number of our employees both in Spain and opened satellite engineering centers, which has had an impact on employee benefit expense. We have also relied increasingly on subcontractors, which has had an impact on other operating costs. We believe that our cost base is adequate to support a larger revenue base than that of 2005.

Sale of Real Property

During 2003, we sold certain real estate that resulted in the recognition of extraordinary income of €16.4 million (calculated in accordance with Spanish GAAP). This extraordinary income caused our net profit to be significantly higher in 2003 than it otherwise would have been, and this fact should be taken into account when comparing our net profits for 2004 with that of 2003. In addition, the recognition of this extraordinary income also influenced our cash flows for 2003.

Recent Developments

Based on our unaudited consolidated interim financial statements as of and for the three months ended March 31, 2006, our operating income for the three months ended March 31, 2006 (IFRS-EU) was €219.6 million. Our operating profit and our profit attributable to shareholders for the same period were €10.4 million and €21.9 million, respectively. Our profit attributable to shareholders includes income net of tax effect of €7.9 million from the sale of our entire 75% stake in a company with extensive real estate holdings. Our profit attributable to shareholders excluding the effect of the sale of the company was €14.0 million. In addition, our EBITDA for the same period was €11.1 million.*

During the first quarter of 2006, we declared an extraordinary dividend of €48.0 million, which was booked during the first quarter of 2006 and paid after the end of the first quarter of 2006. In May 2006, we declared an ordinary dividend of €24.0 million with respect to the year ended December 31, 2005, of which €12.0 million had been booked as an interim dividend at December 31, 2005, an additional €11.8 million of which had been booked as an interim dividend at March 31, 2006 and the remaining €0.2 million of which was booked in the second quarter of 2006. During the first quarter of 2006, we paid the first €12.0 million of this interim dividend. The remaining €12.0 million was paid thereafter.

The unaudited first quarter results discussed above are the results of an interim period only and therefore may not be indicative of future financial results of operations.

Results of Operations

Years Ended December 31, 2005 and 2004 (IFRS-EU)

The following table sets forth certain summary financial and operating information and the percentage change from period to period for each of the periods indicated:

	For the years ended December 31,		Percentage change
	2004	2005	
	(euro in millions)		
Total operating income	564.8	690.3	22.2%
Total operating expenses	(546.3)	(661.7)	21.1%
Operating profit	18.5	28.6	54.6%
Share in results obtained by associates	(0.6)	1.2	—
Financial income/(expense)	(0.6)	6.8	—
Profit before taxes	17.3	36.6	111.6%
Income tax	6.0	5.0	(16.7)%
Profit for the year	23.3	41.6	78.5%
Profit attributable to minority interests	(0.1)	(0.4)	— ⁽¹⁾
Profit attributable to company shareholders	23.2	41.2	77.6%

(1) Not meaningful.

* EBITDA represents operating profit after adding back depreciation and amortization. EBITDA is not a standardized measure under IFRS-EU or elsewhere and should not be considered in isolation or as a substitute for, or as an alternative to, profit for the period, operating profit or any other performance measures derived in accordance with IFRS-EU or as an alternative to cash generated from operating, investing or financing activities as measures of our liquidity derived in accordance with IFRS-EU. For additional information regarding EBITDA, see “Presentation of Financial and Other Information”.

EBITDA has been calculated as follows:

	For the three months ended March 31, 2006
	(euro in millions)
Operating profit	10.4
Depreciation and amortization	0.7
EBITDA	11.1

Operating Income

In accordance with IFRS-EU, our operating income consists of revenues, which we recognize on our projects on the basis of percentage of completion (POC) and the services we offer, and other operating income, which principally includes subsidies from governments and other organizations to support export activities and insurance proceeds. The following table sets forth our operating income and the percentage change from period to period for each of the periods indicated:

	For the years ended December 31,		Percentage change
	2004	2005	
	(euro in millions)		
Revenues	555.9	685.1	23.2%
Other operating income	8.9	5.2	(41.6)%
Total operating income	564.8	690.3	22.2%

Our operating income increased by 22.2% from €564.8 million for the year ended December 31, 2004 to €690.3 million for the year ended December 31, 2005, primarily as a result of an increase in revenues from our turnkey contracts, as explained in more detail below. The following table sets forth our revenues by business division, their proportion of total revenues and the percentage change from period to period for each of the periods indicated:

	For the years ended December 31,				Percentage change
	2004	% revenues	2005	% revenues	
	(euro in millions, except percentages)				
Oil and gas	445.4	80.1%	486.6	71.0%	9.3%
Power	51.5	9.3%	123.6	18.0%	140.0%
Infrastructure and industries	59.0	10.6%	74.9	11.0%	26.9%
Total revenues	555.9	100.0%	685.1	100.0%	23.2%

Oil and Gas. Revenues in our oil and gas division increased by 9.3% from €445.4 million during the year ended December 31, 2004 to €486.6 million during the year ended December 31, 2005. The primary reason for the increase in revenues was from an increase in revenues from the refining and petrochemicals subdivision, partially offset by decreases in revenues from upstream and natural gas projects. The growth in the refining and petrochemicals division in 2005 is due to the fact that the most important projects carried out during 2004, hydroprocessing in Yanbu (Saudi Arabia) for Saudi Aramco and refining in Izmit (Turkey) for Tüpras, maintained high levels of activity in 2005 during their ongoing procurement phases and the commencement of the construction phase. In addition, there was an increase in revenues from new projects, such as the refinery in Dung Quat (Vietnam) for Petrovietnam, the refinery units in Minatitlán (Mexico) for Pemex, several refinery units for Enap in Chile and the refinery in Kirikkale (Turkey) for Tüpras.

The upstream and natural gas subdivision experienced a decrease in revenues in 2005 in relation to the previous financial year, essentially as a result of several new projects being in their early stages of development and thus generating modest amounts of revenues, such as Gathering Centre 28 in Kuwait for KOC, the gas expansion plant in Ju'aymah (Saudi Arabia) for Saudi Aramco or the gas treatment plant in Hawiyah (Saudi Arabia) for Saudi Aramco. These plants did not reach a level of activity sufficient to offset the decrease in income derived from the completion of the natural gas liquefaction plant in Damietta (Egypt) for Segas in 2004.

Power. Revenues in our power division increased by 140.0% from €51.5 million during the year ended December 31, 2004 to €123.6 million during the year ended December 31, 2005. The

increase is primarily the result of the new combined cycle plant projects in As Pontes (La Coruña, Spain) and Barranco de Tirajana (Canary Islands, Spain) for the Endesa Group, which began in December 2004 and entered their phases of maximum activity in 2005. Also, we began a new combined cycle project in Plana del Vent (Tarragona, Spain) for Gas Natural in the year ended December 31, 2005.

Infrastructure and Industries. Revenues in our infrastructure and industries division increased by 26.9% from €59.0 million during the year ended December 31, 2004 to €74.9 million during the year ended December 31, 2005. The increase is primarily attributable a series of new projects that we began during the period. Some of the most important projects in 2005 were the Rambla Morales desalination plant and the construction of facilities for municipalities, such as the performance facility in Huercal-Overa, the San Sebastián de los Reyes Sports Center, a car park in Alcobendas and the participation in Terminal 4 of Barajas Airport.

Operating Expenses

In accordance with IFRS-EU, our operating expenses comprise raw materials and consumables, employee benefit expense, depreciation and amortization and other operating costs. The following table sets forth our operating expenses and the percentage change from period to period for each of the periods indicated:

	For the years ended December 31,		Percentage change
	2004	2005	
	(euro in millions)		
Raw materials and consumables	(322.9)	(380.1)	17.7%
Employee benefit expense	(108.3)	(117.8)	8.8%
Depreciation and amortization	(2.5)	(2.7)	8.0%
Other operating costs	(112.6)	(161.1)	43.1%
Total operating expenses	(546.3)	(661.7)	21.1%

Our operating expenses increased by 21.1% from €546.3 million during the year ended December 31, 2004, to €661.7 million during the year ended December 31, 2005. The principal reasons for these increases are discussed below.

Raw materials and consumables. Raw materials and consumables comprises expenses incurred in connection with the purchase of equipment and materials for our projects. Raw materials and consumables increased by 17.7% from €322.9 million for the year ended December 31, 2004 to €380.1 million for the year ended December 31, 2005. This increase is directly related to the growth in revenues discussed above.

Employee benefit expense. Employee benefit expense consists principally of expenses relating to wages and salaries of our headquarters employees and employees in our satellite engineering centers. Employee benefit expense increased by 8.8% from €108.3 million for the year ended December 31, 2004 to €117.8 million for the year ended December 31, 2005. The increase in employee benefit expense was attributable in part to an increase in the number of our headquarters employees, from 2,200 as of December 31, 2004 to 2,488 as of December 31, 2005 and an increase in employees in our satellite engineering centers from 147 as of December 31, 2004 to 455 as of December 31, 2005, as well as to ordinary wage and salary increases for our employees.

Other operating costs. Other operating costs is principally related to costs that we incur for professional and other services, including expenses relating to subcontractors, as well as expenses relating to professional advisers and rental expense. Other operating expenses increased by 43.1%

during the periods under review, from €112.6 million for the year ended December 31, 2004 to €161.1 million for the year ended December 31, 2005. The primary reason for this increase is an increasing use of subcontractors during 2005 as compared to 2004. In addition, rental expense increased by 36.3% to €11.4 million as a result of the rental of office space in connection with our various projects.

Operating Profit

We calculate operating profit as operating income minus operating expenses. During the periods under review, operating profit increased by 54.6%, from €18.5 million during the year ended December 31, 2004 to €28.6 million during the year ended December 31, 2005, reflecting the growth in our business. As a percentage of total operating income, operating profit increased from 3.3% to 4.1%. This margin improvement reflects improved cost management and better pricing terms in the contracts we have negotiated. We operate at relatively low operating margins principally because the costs of materials and supplies for our projects are included in both our operating income and our operating expenses.

The following table gives a breakdown of our operating profit by business division:

	For the years ended December 31,		Percentage change
	2004	2005	
	(euro in millions)		
Oil and gas	28.6	41.2	44.1%
Power	4.4	5.0	13.6%
Infrastructure and industries	7.8	7.9	1.3%
Not assigned ⁽¹⁾	(22.3)	(25.5)	14.3%
Operating profit	18.5	28.6	54.6%

(1) This item reflects general expenses and structural costs that cannot be allocated to individual business divisions.

Oil and Gas. Operating profit for oil and gas increased by 44.1%, from €28.6 million during the year ended December 31, 2004 to €41.2 million during the same period in 2005, primarily as a result of new projects and better contracted margins. Operating profit for oil and gas represented 6.4% of revenues from this business division during 2004, increasing to 8.5% in 2005, primarily as a result of an improvement in margins and more efficient cost management.

Power. Operating profit for power increased by 13.6%, from €4.4 million during the year ended December 31, 2004 to €5.0 million during the year ended December 31, 2005, although the percentage of revenues from this business division it represented decreased from 8.5% during the year ended December 31, 2004 to 4.0% during the same period of 2005. This decrease in margins is essentially due to the conclusion of a project during 2005 that provided during the period a smaller than expected margin as a result of the client not yet approving certain additional amounts payable to us. The projects starting during 2005 did not offset this decrease as they are in their early stages.

Infrastructure and Industries. The operating profit of infrastructures and industries increased by 1.3% from €7.8 million during the year ended December 31, 2004 to €7.9 million during the same period during 2005. However, operating profit as a percentage of revenues from this division decreased from representing 13.2% of revenues from this business division during 2004 to 10.5% of revenues in 2005, as a result of contracting certain projects involving a large proportion of construction as opposed to engineering, resulting in smaller margins.

Financial Income/(Expense)

The following table sets forth the items comprising net financial income/(expense) and the percentage change from period to period for each of the periods indicated:

	For the years ended December 31,		Percentage change
	2004	2005	
	(euro in millions)		
Interest revenue	2.6	2.7	3.8%
Interest costs	(1.0)	(1.2)	20.0%
Net interest income	1.6	1.5	(6.2)%
Gains/(losses) net in respect of transactions in foreign currency	(3.7)	2.2	—
Gains in the fair value of financial instruments at fair value through profits and loss	1.5	3.1	106.7%
Financial income/(expense)	(0.6)	6.8	—

In accordance with IFRS-EU, interest revenue principally consists of interest earnings on cash and cash equivalents; interest costs consists principally of interest on indebtedness and bank expenses; gains/(losses) net in respect of transactions in foreign currency reflects the impact of exchange rate fluctuations on our balance sheet, including our currency hedges; and gains in the fair value of financial instruments at fair value through profits and loss reflects both earnings received from and changes in the market value of our investments in several exchange-traded funds that make investments mainly in fixed-rate instruments.

Financial income/(expense) increased from an expense of €0.6 million during the year ended December 31, 2004 to an income of €6.8 million during the year ended December 31, 2005. The principal factor for this increase was the significant change in the “gains/(losses) net in respect of transactions in foreign currency” line item as a result of variations in the exchange rate between the US dollar and the euro, with a decline in the value of the US dollar during 2004 as compared to an increase in the value of the US dollar during 2005. Despite our currency hedges, the variations in the US dollar/euro exchange rate impacted this line item because a portion of our US dollar balance sheet items were not fully covered by currency hedges and certain of our currency hedges did not qualify for IFRS-EU hedge accounting, (and accordingly any gain or loss with respect to such currency hedges was required to be recorded in this line item). In addition, an increase in the “gains in the fair value of instruments at fair value through profits and loss” line item played a role in our increased financial income/(expense), primarily as a result of increased level of our investments in exchange-traded funds, as well as an increase in the trading prices of the funds.

Income Tax

During the year ended December 31, 2004, we recognized a tax credit of €6.0 million and during the year ended December 31, 2005, we recognized a tax credit of €5.0 million. These income tax credits are primarily the result of the advantageous tax treatment we receive due to our use of UTEs and analogous entities. As a result of this advantageous tax treatment, we do not recognize a significant portion of our foreign profit for tax purposes in Spain. However, because a substantial portion of our costs are incurred in Spain, for Spanish tax purposes, we recognize a loss that generates a tax credit under IFRS-EU. The exempt portion of our taxable profit for the years ended December 31, 2005 and 2004 was €48.1 million and €33.7 million, respectively.

Profit Attributable to Company Shareholders

Our profit attributable to company shareholders increased by 77.6% from €23.2 million in the year ended December 31, 2004 to €41.2 million in the year ended December 31, 2005, principally as a result of an increase in our operating profit as well as an increase in net financial income, as discussed above.

Years Ended December 31, 2004 and 2003 (Spanish GAAP)

The following table sets forth certain summary financial and operating information and the percentage change from period to period for each of the periods indicated:

	For the years ended December 31,		Percentage change
	2003	2004	
	(euro in millions)		
Total operating income	526.6	601.2	14.2%
Total operating expenses	(507.9)	(578.4)	13.9%
Operating profit	18.7	22.8	21.9%
Amortization of goodwill on consolidation	(0.3)	(0.3)	—
Financial income and expense	1.3	2.8	115.4%
Share in results obtained by associates	—	0.1	—
Extraordinary items	16.9	0.2	(98.8)%
Consolidated profit before taxes	36.6	25.6	(30.1)%
Corporate income tax	(0.1)	4.6	—
Consolidated profit after taxes	36.5	30.2	(17.3)%
Profit attributable to the parent company	36.4	30.1	(17.3)%

Operating Income

In accordance with Spanish GAAP, our operating income consists of revenues (which are calculated on a POC basis) and other operating income, as well as increase in inventories and own work capitalized. The following table sets forth our operating income and the percentage change from period to period for each of the periods indicated:

	For the years ended December 31,		Percentage change
	2003	2004	
	(euro in millions)		
Revenues	520.8	591.9	13.7%
Increase in inventories	0.3	4.7	— ⁽¹⁾
Own work capitalized	0.9	1.4	55.6%
Other operating income	4.6	3.2	(30.4)%
Total operating income	526.6	601.2	14.2%

(1) Not meaningful.

Our operating income increased by 14.2% from €526.6 million in the year ended December 31, 2003 to €601.2 million in the year ended December 31, 2004, primarily as a result of an increase of 13.7% in our revenues from €520.8 million for the year ended December 31, 2003, to €591.9 million for the year ended December 31, 2004. Under Spanish GAAP, increase in inventories and own work capitalized are broken out separately from other operating income, whereas IFRS-EU includes these

items in operating income. Amounts under increase in inventories and own work capitalized under both IFRS-EU and Spanish GAAP are offset by corresponding operating expenses. Other operating income consists principally of insurance proceeds and subsidies, as described above in respect of 2005.

The following table sets forth our revenues by business division, the proportion of total revenues and the percentage change from period to period for each of the periods indicated:

	For the years ended December 31,				Percentage change
	2003	% revenues	2004	% revenues	
	(euro in millions, except percentages)				
Oil and gas	387.1	74.3%	479.3	81.0%	23.8%
Power	86.0	16.5%	51.5	8.7%	(40.1)%
Infrastructure and industries	47.7	9.2%	61.1	10.3%	28.1%
Total revenues	520.8	100.0%	591.9	100.0%	13.7%

Oil and Gas. Revenues from our oil and gas division increased by 23.8% from €387.1 million during the period ended December 31, 2003 to €479.3 million during the period ended December 31, 2004. The increase is primarily attributable to our increases in revenue from our refining and petrochemicals projects, partially offset by decreases in our revenues from upstream and natural gas projects.

The strong growth in the refining and petrochemicals subdivision in 2004 is essentially due to the hydroprocessing project in Yanbu (Saudi Arabia) for Saudi Aramco and the refinery project in Izmit (Turkey) for Tüprás, both of which began in 2003, entering the procurement stage, which was a stage of maximum activity and volume during 2004. In the upstream and natural gas subdivision, revenues decreased in 2004 as compared with the previous financial year because the natural gas liquefaction plant project in Damietta (Egypt) for Segas was in its phase of maximum activity in 2003. In 2004, this project was completed and thus experienced lesser activity during 2004 than during 2003. Also in 2004, our Ourhoud project for Cepsa and Sonatrach experienced less activity than in 2003. The remaining upstream and natural gas projects underway in 2004, carried out mainly in the Maghreb desert and in Spain, did not offset the reduction in income resulting from the Segas project.

Power. Revenues from our power division decreased by 40.1% from €86.0 million during the year ended December 31, 2003 to €51.5 million during the year ended December 31, 2004. This decrease is principally due to the fact that work on the combined cycle plant in Granadilla was concluding in the 2004 financial year, while in 2003 it was at a stage of maximum activity. In addition, in 2003 the final portions of the combined cycle facility in Tarragona (Spain) were completed. As a result, there was no activity from this project in 2004. The projects corresponding to the new combined cycle plants for the Endesa Group in As Pontes (La Coruña, Spain) and Barranco de Tirajana (Canary Islands, Spain) began in December 2004 and, accordingly, had only a limited impact on our 2004 revenues.

Infrastructure and Industries. Revenues from infrastructure and industries increased by 28.1% from €47.7 million during the year ended December 31, 2003 to €61.1 million during the year ended December 31, 2004. This increase was primarily the result of the commencement of several new projects in 2004. Some of the most important projects during 2004 were the Rambla Morales desalination plant and the construction of an assembly plant for the aeronautics firm EADS-CASA in Seville.

Operating Expenses

Under Spanish GAAP, our operating expenses comprise materials consumed in operations and other external expenses; employee benefit expense; depreciation and amortization; changes in trade

provisions; and other operating charges. The following table sets forth our operating expenses and the percentage change from period to period for each of the periods indicated:

	For the years ended December 31,		Percentage change
	2003	2004	
	(euro in millions)		
Materials consumed in operations and other external expenses	304.0	344.5	13.3%
Employee benefit expense	100.8	108.0	7.1%
Depreciation and amortization	2.6	3.0	15.4%
Change in trade provisions	(0.8)	1.4	—
Other operating charges	101.3	121.5	19.9%
Total operating expenses	507.9	578.4	13.9%

Our operating expenses increased by 13.9% from €507.9 million during the year ended December 31, 2003 to €578.4 during the year ended December 31, 2004. The principal reasons for this increase were increases in materials consumed in operations and other external expenses, other operating charges and staff costs. The reasons for these increases are discussed below.

Materials Consumed in Operations and Other External Expenses. In accordance with Spanish GAAP, materials consumed in operations and other external expenses principally comprises expenses incurred in connection with the purchase of equipment and supplies for projects. Materials consumed in operations and other external expenses increased by 13.3% from €304.0 million for the year ended December 31, 2003 to €344.5 million for the year ended December 31, 2004. This increase is directly related to the increase in our operating income.

Employee Benefit Expense. Employee benefit expense consists principally of expenses relating to wages and salaries of our headquarters employees as well as employees in our satellite engineering centers. Employee benefit expense increased by 7.1% from €100.8 million for the year ended December 31, 2003 to €108.0 million for the year ended December 31, 2004. The primary reasons for this increase were ordinary increases in wages, as well as an increase in the number of our headquarters employees, which increased by 4.9% from 2,098 as of December 31, 2003 to 2,200 as of December 31, 2004, as well as an increase in the number of employees in our satellite engineering centers, which increased from 17 as of December 31, 2003 to 147 as of December 31, 2004.

Other Operating Charges. Other operating charges is principally related to costs that we incur for professional and other services, including expenses relating to subcontractors, as well as expenses relating to professional advisers and rental expenses. Other operating charges increased by 19.9% during the periods under review, from €101.3 million for the year ended December 31, 2003 to €121.5 million for the year ended December 31, 2004. The primary reason for this increase is due to an increase in our expenses relating to professional and other services as a result of an increase in the usage of subcontractors in connection with the increased number of projects we undertook during the periods under review.

Operating Profit

We calculate operating profit as operating income minus operating expenses. During the periods under review, operating profit increased by 21.9%, from €18.7 million during the year ended December 31, 2003, to €22.8 million during the year ended December 31, 2004, reflecting continued growth of the business. As a percentage of operating income, operating profit increased slightly from 3.5% to 3.8%, reflecting increasing efficiencies and better pricing terms in the contracts we have negotiated.

The following table provides a breakdown of our operating profit by business division:

	For the years ended December 31,		Percentage change
	2003	2004	
	(euro in millions)		
Oil and gas	27.7	29.5	6.5%
Power	2.2	4.4	100.0%
Infrastructure and industries	7.3	11.2	53.4%
Not assigned ⁽¹⁾	(18.5)	(22.3)	20.5%
Total operating profit	18.7	22.8	21.9%

(1) This item reflects general expenses and structural costs that cannot be allocated to individual business divisions.

Oil and Gas. Operating profit in our oil and gas division increased by 6.5% from €27.7 million during the year ended December 31, 2003 to €29.5 million during the year ended December 31, 2004, although operating profit as a percentage of revenues in the division decreased from 7.2% during the year ended December 31, 2003 to 6.2% during the year ended December 31, 2004. This decrease in operating margin is principally related to the fact that our relatively higher margin projects, Orhoud and Damietta, were in their phases of highest activity during 2003.

Power. Operating profit in our power division increased by 100.0% from €2.2 million during the year ended December 31, 2003 to €4.4 million during the year ended December 31, 2004. In addition, operating profit represented 2.6% of revenues for the division during the year ended December 31, 2003, increasing to 8.5% during the year ended December 31, 2004. This increase in operating margin is primarily related to the fact that our margins were lower in 2003 as a result of the small margin from projects that were in their advanced stages, such as the combined cycle plant at Tarragona (Spain), and that other projects during 2003 that were in their initial stages, such as the combined cycle plant at Granadilla (Spain), during the period could not offset this decrease.

Infrastructure and Industries. Operating profit in our infrastructure and industries division increased by 53.4% from €7.3 million during the year ended December 31, 2003 to €11.2 million during the year ended December 31, 2004. In addition, operating profit represented 15.3% of revenues for the division during the year ended December 31, 2003, increasing to 18.3% during the year ended December 31, 2004. This increase in operating margin is attributable to the execution during 2004 of a variety of higher-margin projects, such as the desalination plant at Rambla Morales or the aeronautical construction plant for ADS.

Financial Income

The following table sets forth those items comprising net financial income/(expense) and the percentage change from period to period for each of the periods indicated:

	For the years ended December 31,		Percentage change
	2003	2004	
	(euro in millions)		
Financial income and short-term investments	3.1	3.5	12.9%
Financial expense	(1.9)	(1.0)	(47.4)%
Net financial income and short-term investments and financial expense .	1.2	2.5	108.3%
Net currency exchange differences	(2.8)	(0.5)	82.1%
Changes in provisions for financial investments	2.9	0.8	(72.4)%
Financial income	1.3	2.8	115.4%

Under Spanish GAAP, financial income and short-term investments principally consists of interest earnings on cash and cash equivalents and earnings on short-term investments; financial expense consists principally of interest on indebtedness and bank expenses; net currency exchange differences reflects the impact of exchange rate fluctuations on our balance sheet, including currency hedges; and changes in provisions for financial investments reflects adjustments to financial provisions relating to short-term investments.

Our financial income increased by 115.4% from €1.3 million for the year ended December 31, 2003 to €2.8 million for the year ended December 31, 2004. This increase is due in part to an improvement in our net financial income and short-term investments and financial expense, which increased by 108.3% from €1.2 million during the year ended December 31, 2003 to €2.5 million during the year ended December 31, 2004, primarily as a result of an improvement in our net cash position. This increase was partially offset by a decrease in changes in provisions for financial investments from €2.9 million during the year ended December 31, 2003 to €0.8 million during the year ended December 31, 2004. In each year, the changes in provisions for financial investments reflected the release of provisions taken in previous years relating to short-term investments. Net currency exchange differences also played a role in financial income improving by 82.1% from a loss of €2.8 million during the year ended December 31, 2003 to a loss of €0.5 million during the year ended December 31, 2004, primarily as a result of the variation of the US dollar/euro exchange rate.

Extraordinary Items

We recognized extraordinary items of €16.9 million during the year ended December 31, 2003. Of this amount, €16.6 million is attributable to the sale of fixed assets.

Corporate Income Tax

During the year ended December 31, 2003, we recognized a tax charge of €0.1 million and during the year ended December 31, 2004, we recognized a tax credit of €4.6 million. The principal reason for the improvement in our tax position is our expanded use of UTEs and analogous structures for projects in 2004.

Profit Attributable to the Parent Company

Our profit attributable to the parent company decreased by 17.3% from €36.4 million during the year ended December 31, 2003 to €30.1 million during the year ended December 31, 2004. The principal reason for this decrease was the exceptional income in 2003 from the sale of real estate

described above, which more than offset the effect of the improvements in operating profit and net financial income during 2004.

Liquidity and Capital Resources

Our liquidity requirements arise primarily to meet our working capital requirements. Our principal sources of funds are cash flow from operations, although we do from time to time borrow under short-term credit facilities and lines of credit. We focus our activities on turnkey projects, normally involving fixed-price contracts. We recognize revenues on our turnkey projects using the percentage of completion (POC) method. This involves us recognizing an increasing proportion of contract revenues and earnings based on the percentage of completion. The revenues and earnings (or losses) are based on estimates of contract revenues, costs incurred and profitability and may not reflect actual revenues, earnings or profits for the contract. In addition, although revenues and earnings may be recognized, these may not represent cash received by us. Because of the lag between recording of revenues and timing of invoicing, there will be a difference between our revenues and cash flows for any particular reporting period. We seek to maintain a high net cash position, which in part addresses this potential timing difference. We had a total borrowing availability under our lines of credit of €108.6 million, of which €54.2 million had been borrowed and €54.4 million was unused and available for drawing, as of December 31, 2005.

Assuming no material adverse changes in our operations or in our operating environment, we believe that our cash flow from operations as well as cash and our access to our financing arrangements discussed below will be sufficient to fund our liquidity requirements over the next 12 months.

Historical Cash Flows

We have maintained a positive net cash position throughout the periods under review. However, in the future we may experience negative cash flows in certain periods. Our net cash position as of December 31, 2005 was €261.2 million, calculated as set forth in the table below:

	As of December 31, 2005
	(euro in millions)
Cash and cash equivalents	258.1
Financial assets at fair value through profits or loss	57.3
Borrowings	(54.2)
Net cash position	261.2

The following table sets forth our historical cash flows on an IFRS-EU basis for each of the periods indicated:

	For the year ended December 31,	
<u>IFRS-EU</u>	2004	2005
	(euro in millions)	
Net cash generated from operating activities	(6.7)	130.4
Net cash generated from investing activities	(9.7)	(10.2)
Net cash generated from financing activities	(19.5)	22.6

Net cash generated from operating activities (IFRS-EU). Net cash generated from operating activities was €130.4 million during the year ended December 31, 2005, principally as a result of our profit for the year, plus a positive variation in working capital. Net cash used by operating activities was €6.7 million for the year ended December 31, 2004 principally as a result of the fact that the negative variation in working capital (reflecting, in particular, some late payments from a significant client that

could not be offset by transferring this delay to our suppliers) was not compensated by the income generated in 2004.

Net cash generated from investing activities (IFRS-EU). Net cash used by investing activities was €10.2 million and €9.7 million during the years ended December 31, 2005 and 2004, principally as a result of capital expenditures.

Net cash generated from financing activities (IFRS-EU). Net cash generated from financing activities was €22.6 million during the year ended December 31, 2005, primarily as a result of proceeds from borrowings that were partially offset by the payment of a dividend. Net cash used by financing activities was €19.5 million for the year ended December 31, 2004 as a result of dividends paid during the period that were larger than proceeds from borrowings during the period.

The following table sets forth our historical cash flows on a Spanish GAAP basis for each of the periods indicated:

<u>Spanish GAAP</u>	<u>For the year ended December 31,</u>	
	<u>2003</u>	<u>2004</u>
	<u>(euro in millions)</u> <u>(unaudited)</u>	
Net cash generated from operating activities	37.3	(6.5)
Net cash generated from investing activities	12.6	(9.8)
Net cash generated from financing activities	(10.0)	(19.6)

Net cash generated from operating activities (Spanish GAAP). Net cash used by operating activities was €6.5 million during the year ended December 31, 2004 principally as a result of the fact that the negative variation in working capital (reflecting, in particular, some late payments from a significant client that could not be offset by transferring this delay to our suppliers) was not compensated by the income generated in 2004. Net cash generated from operating activities was €37.3 million during the year ended December 31, 2003, principally as a result of the aggregated effect of profit plus a positive variation in working capital.

Net cash generated from investing activities (Spanish GAAP). Net cash used by investing activities was €9.8 million during the year ended December 31, 2004 as a result of capital expenditures. Net cash generated from investing activities was €12.6 million during the year ended December 31, 2003, primarily as a result of proceeds from the sale of real estate, partially offset by capital expenditures.

Net cash generated from financing activities (Spanish GAAP). Net cash used by financing activities was €19.6 million during the year ended December 31, 2004 and €10.0 million during the year ended December 31, 2003, also as a result of dividends paid that were larger than proceeds from borrowings during the period.

Financing Arrangements

Our credit lines are provided to us by eleven different banks, which are located both in and outside Spain. Some of our credit lines are general credit lines and some are project specific. All credit lines are guaranteed by Técnicas Reunidas. As of December 31, 2005 we had a total of €108.6 million available to us under our credit lines, of which of which €54.2 million had been borrowed and €54.4 million was available under our credit lines as of the same date. Our lines of credit incur interest at floating rates. Our general lines of credit generally incur interest at a rate of EURIBOR plus a margin of 0.25%. Our project-linked lines of credit generally incur interest at a rate of LIBOR plus a

margin of 0.35%. We account for our credit lines as short-term debt as we anticipate repaying any drawings thereunder in less than one year.

Capital Expenditures

Capital expenditures incurred during the years ended December 31, 2004 and 2005 (IFRS-EU) and December 31, 2003 and 2004 (Spanish GAAP) are presented in the following table:

	Spanish GAAP For the year ended December 31,		IFRS For the year ended December 31,	
	2003	2004	2004	2005
	(euro in millions)		(euro in millions)	
Purchase of property, plant and equipment	2.6	2.6	3.0	8.4
Purchase of intangible assets	1.3	2.4	2.1	1.0
Acquisition of associates	0.1	4.8	4.8	0.1
Acquisition of other long-term assets	0.1	0.3	—	0.8
Capital expenditures	4.1	10.1	9.9	10.3

Our capital expenditures are principally related to research and development, information technology and plant and equipment. In 2005, our capital expenditures also included costs associated with a significant expansion of our infrastructure in Spain, including refurbishment and fitting-out costs. In addition, in 2004 and 2005, our capital expenditures included investments in companies created in connection with projects to be performed outside Spain. For example, we formed, along with other participants, Productora de Diesel, S.A. in connection with the construction of a mild hydrocracking plant in Chile, for which we provided a capital investment of €4.6 million and €0.3 million during the years ended December 31, 2004 and 2005, respectively. We also intend to invest a total of US\$3.7 million by the end of 2006 (US\$0.6 million of which was already invested in 2005) in order to acquire a 17% interest in Energía Concón, S.A. in connection with the construction of a coker plant in Chile.

In January 2005, we acquired a 49% interest in Granherne & Co. LLC, a company located in Oman that provides engineering services in the natural gas sector. The purchase price was €397 thousand, and the company is now called TR Engineering LLC.

Contractual Obligations

Our estimated contractual obligations (other than our contingencies discussed below and other financial obligations discussed below) as of December 31, 2005, are shown in the table below:

IFRS-EU	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
	(euro in millions)				
Operating lease obligations	8.5	15.7	8.3	2.5	35.0
Finance lease obligations ⁽¹⁾	0.7	0.9	—	—	1.6
Purchase obligations ⁽²⁾	314.4	—	—	—	314.4
Debt obligations	54.2	—	—	—	54.2
Total	377.8	16.6	8.3	2.5	405.2

(1) Finance lease obligations do not include future interest payments because they are considered not significant.

(2) Represents short-term obligations to suppliers for the purchase of equipment and materials in connection with our projects.

Set forth below is a description of our other contractual financial obligations, excluding financial debt.

Contingencies and Off-Balance Sheet Obligations

During the bidding and execution phases of a particular project, we are required to provide bid payment, down payment, performance and guarantee bonds. We had bonds outstanding of €228.0 million, €251.7 million as of December 31, 2003 and 2004 (Spanish GAAP), respectively, and €251.7 million and €445.5 million as of December 31, 2004 and 2005 (IFRS-EU), respectively.

Other than as set forth above, and those related to currency forward contracts described in “—Currency Risk”, we have no off-balance sheet arrangements.

Disclosure about Market Risk

Market risk represents the risk of changes in the value of financial instruments and other risk to our financial position, caused by fluctuations in foreign currency exchange rates and interest rates.

It is our treasury policy to monitor and manage exposure to foreign currency exchange rate risk and variable interest rate risk. In order to reduce such foreign currency exchange rate exposure and interest rate risk, and as market conditions warrant, we and our affiliates may enter into currency or interest rate hedging transactions. We review our hedging arrangements and requirements periodically.

We have invested some of our cash in exchange-traded instruments, generally funds that hold principally fixed-income investments. At December 31, 2005, the aggregate value of such investments on our balance sheet was €57.3 million.

Currency Risk

A large portion of the turnkey contracts we enter into are payable in currencies other than euro, normally the US dollar or currencies linked to the US dollar. As of December 31, 2005, our backlog was €1,712 million, of which, approximately 70% was denominated in currencies other than euro. However, purchases we might need to make in connection with a specific project may be made in a variety of currencies, most of which may be different than the contract currency.

In order to reduce our currency exposure, where possible, we seek to incur expenses with respect to each contract in the currency in which the contract is denominated. We seek to cover the remaining risk and to protect our targeted margin on each project by entering into currency forward contracts with large international banks.

As of December 31, 2005, the principal notional amount of our currency forward contracts, principally for the sale of US dollars, was US\$235.0 million.

Because many of our projects are denominated in currencies other than euro (which is our reporting currency), to the extent that we have not adequately hedged our non-euro expenses and our targeted margin for each project, differences in exchange rates may have an impact on our results of operations.

Interest Rate Risk

Borrowings under our credit lines are generally at floating interest rates and our cash investments generally bear interest at floating rates or are impacted by changes in interest rates. Because we believe that the potential impact of interest rate fluctuations is moderate we do not currently hedge our interest rate risk. At December 31, 2005, the aggregate amount of our floating-rate debt was €54.2 million.

Effect of Inflation

During 2003, 2004 and 2005, our business has experienced effects from inflation with respect to projects mainly undertaken in South America, although the level of such effect have not been material because our contracts are generally denominated in euro or US dollar. However, we cannot assure you that inflation will not have a material adverse effect on our business in the future.

Critical Accounting Policies

We have prepared our IFRS Financial Statements in accordance with IFRS-EU and our Spanish GAAP Financial Statements in accordance with Spanish GAAP. Both IFRS-EU and Spanish GAAP differ in significant aspects from US GAAP. The preparation of financial statements in conformity with IFRS-EU and Spanish GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosure of contingent assets and contingent liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because of the uncertainty of factors surrounding the estimates or judgments used in the preparation of the consolidated financial statements, actual results may vary from these estimates.

Revenue Recognition

Revenue recognition criteria applied by us is based on the POC method. The extent of completion is calculated as the POC method incurred with respect to the contract compared with total estimated costs required to fulfil the contract. This revenue recognition method is applied only when the result from the contract may be reliably estimated and it is likely that the contract will generate profits. If the result from the contract may not be reliably estimated, revenues are recognized to the extent that costs are recovered. When it is likely that the costs relating to a contract exceed revenues from that same contract, the loss is immediately recognized as an expense. When applying the POC method, we make significant estimates relating to the total costs necessary to fulfil the contract. These estimates are reviewed and are evaluated regularly in order to verify whether or not they generated a loss and if it is possible to continue to apply the percentage completion method or to re-estimate the expected margin from the project. During the development of a project, we also estimate the probable contingencies relating to the increase in the total estimated cost and adjust revenue recognition accordingly.

Useful Lives of Property, Plant and Equipment and Intangible Assets

Our management estimates the useful lives and relevant depreciation and amortization charges for our property, plant and equipment and intangible assets, respectively. The useful lives of assets are estimated in accordance with the period over which the fixed asset concerned will generate profits. At each closing, we review the useful lives of assets and if the estimates differ from those made previously the effect of the change is recorded on a prospective basis as from the year in which the change is made.

Provisions

Provisions are recognized when it is probable that a present obligation, resulting from past events, will require the application of resources and when the amount of the obligation may be reliably estimated. To comply with the requirements of accounting rules significant estimates are necessary. Our management makes estimates, evaluating all relevant information and events, of the probability of a contingency and the amount of the liability to be settled in the future.

Income Tax and Deferred Tax Assets

The calculation of income tax requires interpretation of applicable tax legislation by our various group companies. There are also several factors mainly, but not exclusively, linked to changes in tax laws and changes in the interpretation of tax laws already in force, which require the application of estimates by our management. In addition, we evaluate the recoverability of deferred tax assets based on the existence of future taxable income against which these assets may be offset.

Employee Benefits

The present value of employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a series of assumptions. The assumptions made to the cause and the employee benefit obligation include a discount rate and a growth rate for salaries and other benefits. Other key assumptions for pension obligations are based in part on current market conditions. Any change in these assumptions will have an effect on the expense amount and the liability for employee obligations.

Warranty Claims

We generally offer 12- or 36-month warranties on our 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 be different than those arising in future claims.

Goodwill Impairment Test

Under IFRS-EU, we verify annually whether there is an impairment loss in respect of goodwill. The recoverable amounts in cash generating units have been determined based on calculations of the value in use. These calculations require the use of estimates. Under Spanish GAAP, goodwill is subject to systematic amortization over a 20-year period.

Fair Value of Unlisted Financial Instruments

Under IFRS-EU, we calculate the fair value of financial instruments (financial assets and liabilities) that are not traded on an active market through estimates made on the selection of methods and assumptions that are mainly based on existing market conditions at each balance sheet date. We have used analyses of discounted cash flows for some available-for-sale financial assets that were not traded on active markets and other objective evidence of the fair value of the instrument concerned, such as recent transactions of reference or the value of purchase or sale options existing at the balance sheet date.

Under Spanish GAAP, financial instruments are maintained at book value.

Impact of Transition to IFRS-EU on Our Results of Operations

The following is a summary of the key differences between Spanish GAAP and IFRS-EU that have had a significant impact on the presentation of our results of operations. The discussion below does not detail all impacts of the transition. Further information on differences between Spanish GAAP and IFRS-EU can be found in Note 5 to the IFRS-EU Financial Statements.

- Under Spanish GAAP, income and expenses related to projects denominated in currencies other than euro for which we had forward currency hedges were valued based on those hedges. Under IFRS-EU, income and expenses related to projects denominated in currencies other than euro are required to be booked at the spot rate of exchange on the income statement date, without taking into account our currency hedges. If we have matched the

relationship between our currency hedge and the related contract, any profit or loss associated with the currency hedge can be recognized as operating income or expense. However, if the underlying contract is terminated or we have not sufficiently established a matching relationship between a currency hedge and a particular contract, we are required to book any profit or loss associated with the relevant currency hedge as financial income or expense. This was not required in accordance with Spanish GAAP.

- Under IFRS-EU, the ability to capitalize bidding costs is more restricted than under Spanish GAAP.
- IFRS-EU does not permit research costs to be capitalized, which was permitted under Spanish GAAP. In addition, the requirements to capitalize development costs are more restrictive under IFRS-EU than under Spanish GAAP.

BUSINESS

Overview

We are an international general contractor, engaged in the engineering, design and construction of oil and gas facilities (including oil refineries, petrochemical plants, oil production and natural gas facilities), power plants and infrastructure projects. We have a substantial client base located throughout the world, including many NOCs, multinational companies and Spanish companies. We are the leader in engineering and construction in the oil and gas sector in Spain as measured by revenues, according to OilGas magazine's annual reports during the past five years. We believe we are one of the leaders in Europe in the construction of oil and gas facilities, and one of the world leaders in the refining sector. We had revenues of €685.1 million (IFRS-EU) in the year ended December 31, 2005 and a backlog of €2,815 million as of March 31, 2006.

Most of our business is concentrated on large turnkey industrial projects, although we also provide engineering, construction management, start-up and operating services for industrial plants. We divide our business into three divisions as set forth in the following table:

Our Business Divisions			
Oil and Gas		Power	Infrastructure and Industries
Refining and Petrochemicals	Upstream and Natural Gas		
• Refining • Petrochemicals Proprietary know-how: • Refining units • Heat transfer • Hydrometallurgy • Fertilizers	• Oil and gas fields • Regasification • Liquefaction • Storage • Pipelines	• Combined cycles • Nuclear • Conventional Thermal Power Plants • Renewable Energy • Cogeneration	• Water treatment • Desalination • Airports • Ports • Recycling • Others

As set out in the following table, our principal division at December 31, 2005 by revenues is our oil and gas division:

	For the year ended December 31, 2005	
	Revenues	Percentage of Total
	(euro in millions, except percentages)	
Oil and gas	486.6	71.0%
Power	123.6	18.0%
Infrastructure and industries	74.9	11.0%
Total	685.1	100.0%

We are capable of performing basic process engineering in the refining sector, both with respect to licensed technology and our own technology (rather than relying on basic engineering

provided by third parties), thanks to the know-how acquired and developed over more than 40 years, by our processes department that now comprises approximately 200 professionals. In addition, as a complement and in support of our various business divisions, we also engage in the development of advanced technologies and we own patents for various industrial processes, in particular for fertilizers and non-ferrous metal recovery.

As set out in the following table, during the year ended December 31, 2005, the majority of our revenues came from outside Spain.

	For the year ended December 31, 2005	
	Revenues	Percentage of Total
	(euro in millions, except percentages)	
Spain	277.2	40.4%
Middle East	182.7	26.7%
Mediterranean	117.6	17.2%
Latin America	79.0	11.5%
Far East	28.6	4.2%
Total	685.1	100.0%

In our 46 years of existence, we have designed and managed the construction of more than 1,000 industrial plants in more than 50 countries for clients such as: NOCs: Saudi Aramco, Kuwait Oil Company (KOC), Petroleum Development of Oman (PDO), Oman Refining Company (ORC), Sonatrach, Tüpras, Sinopec, Enap, Pemex, Petrovietnam; international companies: Shell, BASF, BP, Total, GE, ExxonMobil, UBE Industries (UBE), Anglo American; and Spanish companies (Repsol-YPF, Cepsa, Gas Natural, Endesa, Unión Fenosa, Iberdrola, Enagás). We have approximately 2,500 employees located in our headquarters and more than 450 employees in our satellite engineering centres.

History

Our origins date back to 1960, when Lummus Española, S.A. was formed, and in 1963 we designed and built our first complete refinery in Spain, thus beginning our focus on the oil and gas sector. In 1972, we merged with another company and adopted their name and thus became known as Técnicas Reunidas, S.A.

In 1963, we completed engineering and construction of our first complete refinery in Spain, beginning our specialization in the engineering and construction of refineries. In 1968, we completed engineering and construction of the Luján de Cuyo refinery in Argentina for Yacimientos Petrolíferos Fiscales, SA (YPF), our first turnkey project outside Spain.

In 1980, with a view to being able to better develop our business in the engineering and construction of power stations (both nuclear and conventional thermal facilities) and to assist with energy development in Spain, we participated in the creation of Empresarios Agrupados, Sociedad Anónima de Empresas (“**Empresarios Agrupados**”) together with Gibbs & Hill Española, S.A. (now called Ghesa Ingeniería y Tecnología, S.A. or Ghesa) and Estudios y Proyectos Técnicos, S.A. (known as Eptisa). Following our acquisition Eptisa’s 25% ownership of Empresarios Agrupados, we now hold a 43% interest in Empresarios Agrupados, with Ghesa holding 34%, Iberinco, S.A. (part of the Iberdrola group) holding 11% and Soluziona Ingeniería (part of the Unión Fenosa group) holding 11%.

Through the creation of Empresarios Agrupados, we have participated in a number of power projects and, in particular and only through this group, the design of nuclear power plants in Spain.

At the start of the 1980s, we began pursuing contracts for large turnkey projects (projects notable because of their size and complexity, our responsibility or their value) in the international markets.

In 1981, we secured the turnkey project for the engineering and construction of the hydrocracking plant in Dumai (Indonesia) for PT Pertamina (Persero), with client investment of approximately US\$1.4 billion and with us invoicing the client approximately US\$700 million.

Towards the end of the 1980s, we became one of the first engineering and construction companies to establish ourselves in China, where after nearly 20 years of working in there, we have developed many different types of projects, including petrochemical, fertilizer and iron and steel plants. The success in the execution of these projects, together with the prizes and awards we received in the region, significantly increased our reputation and helped us to secure new projects of increasing size and complexity.

Towards the end of the 1990s, we began assuming the role as the selected contractor on a number of combined cycle plants in Spain. For example, we solidified our relationship with General Electric Power and became recognized as a selected contractor.

In 2000, we acquired two of the four business units from the state-owned Initec during its privatization—its industrial plants division and its infrastructure division. The acquisition of the industrial plants division increased our involvement in the upstream and natural gas sector due to Initec's existing experience in this sector. Also, the acquisition of the infrastructures division allowed us to have a greater participation in a number of Spanish infrastructure projects.

In 2001, we secured a turnkey project for the engineering and construction of a natural gas liquefaction plant in Damietta for Segas (a member of the Unión Fenosa group), the project with the highest single-train liquefaction capacity in the world with a client investment of approximately US\$1.0 billion, with us invoicing approximately US\$350 million.

Also in 2001, we secured a turnkey project for the development of an oil field in Ourhoud (Algeria) for Cepsa and Sonatrach, our first large oil production project.

In 2003, we secured the turnkey contract for the engineering and construction of the Yanbu hydrotreatment plant for Saudi Aramco, the Saudi NOC, which has the largest crude oil reserves in the world. The project, which will soon be completed, was the first of four that we are currently developing for this company, not only in the refining and petrochemicals subdivision, but also in the upstream and natural gas subdivision. This has opened up the Persian Gulf region as a new strategic market for us.

In the same year, we secured three new contracts in the petrochemical sector in China for Shell and China National Off-Shore Oil Company (CNOOC) in Nanhai, BASF and Sinopec in Nanjing and BASF in Shanghai.

Over the last few years, we have continued to secure important contracts in all of our areas of activity, but principally in the oil and gas sector. A few examples of our latest turnkey contracts are two contracts we secured for the Mexican NOC Pemex for the expansion and modernization of its Minatitlán refinery; the engineering and construction of the first refinery in Vietnam for the Petrovietnam group; and notably the Rabigh refinery for Saudi Aramco and Sumitomo in Saudi Arabia for more than €1.0 billion, in which we are the sole contractor. The latter project has contributed, along with other recent projects, to our strong positioning in the Persian Gulf.

Our Key Strengths

We believe that we have the following key strengths:

- *Favorable Market Conditions.* The demand for oil and gas products continues to increase mainly as a result of the growth of the world economy. We believe that the oil and gas industry has under-invested in infrastructure over several decades and that investment is needed to cope with growing demand. In addition, we believe that additional investment in facilities is also required to meet increasingly strict environmental laws and regulations, as well as to meet the need for more complex refineries that are able to process heavy crude oils.

We believe that the strong financial position currently enjoyed by oil and gas companies, together with a favorable commodity price and refining margin outlook for these companies, will encourage significant investment in oil and gas infrastructure over the next several years.

We believe the number of contractors that are able to respond to this demand with sufficient know-how, technological skills and experience is limited and that new competition will be limited given the high barriers to entry.

- *Strong Positioning in the Market.* We believe that we have a very strong position in the oil and gas sector that should enable us to capture additional business from the expected growth in the market described above. Our strong position is based on our client base, the markets in which we operate, the products that we offer and, especially, our almost 50 years of experience and strong track record in the oil and gas sector. We believe that our extensive experience in the management of turnkey projects provides us with a competitive advantage over other oil and gas engineering and construction companies that are less specialized and over potential new competitors. Due to our smaller size as compared to our larger competitors, we believe that by taking advantage of the expected growth, we are in a position to increase our revenues at a faster rate than our larger competitors.

Our track record in the oil and gas sector includes turnkey projects in a large number of countries for a diverse group of clients.

- Markets in which we have undertaken projects include: Saudi Arabia, Kuwait, Oman, Chile, Mexico, Vietnam, China, Turkey, Algeria and Spain, among others.
- Our clients include, among others: NOCs (Saudi Aramco, Kuwait Oil Company (KOC), Petroleum Development of Oman (PDO), Oman Refining Company (ORC), Sonatrach, Tüpras, Sinopec, Enap, Pemex, Petrovietnam); multinational companies (Shell, BASF, BP, Total, GE, ExxonMobil, UBE Industries (UBE), Anglo American); and Spanish companies (Repsol-YPF, Cepsa, Gas Natural, Endesa, Unión Fenosa, Iberdrola, Enagás).

Many of our clients are repeat customers, which we believe demonstrates the quality of our execution and the strength of the relationships that we have developed with our clients.

We also believe we are strongly positioned in the Spanish power sector as a result of our extensive track record in that industry, which includes 15 combined cycle gas turbine (CCGT) plants and (partly through our association with Empresarios Agrupados) eight nuclear plants. Additionally, we also believe we have a strong position in certain niche markets of the infrastructure segment in Spain where we are present and believe that we have built strong relationships with our client base in the sector, which mainly consists of public authorities.

- *Ability to Improve Our Margins.* As described above, we believe that demand for our engineering and construction services in the oil and gas sector is increasing and that the number of competitors with sufficient know-how, technical skills and experience is limited. As a result of the current demand-supply dynamics, our negotiating position has improved. In addition, due to our current positioning, we believe we can develop a selective bidding strategy to reduce annual bidding costs, while focusing on the most commercially attractive projects. Lastly, we believe that our cost base is adequate to support a larger revenue base than that of 2005 and therefore any revenue increases in future periods could result in margin improvement.
- *Sustainable Business.* Our management team has significant experience in our areas of operation, and has been instrumental in the growth we have experienced over the past few years. We have a diversified business, with an extensive track record in projects covering various products for a variety of clients in various markets. This diversification allows us to be flexible and respond to changes in demand. We also have extensive experience evaluating and managing the risks associated with turnkey contracts and we believe we have developed robust risk management procedures to limit our exposure to these risks.

Furthermore, the infrastructure and industries division, which focuses on a relatively larger number of smaller projects, has provided us with a source of relatively stable income.

Our Strategy

Specific steps that form part of our strategy include the following:

- *Invest in our Positioning.* We intend to make a special effort to gain access to and focus our target markets, establishing relationships with leading clients in the sectors in which we operate, while investing continuously in know-how and differentiating ourselves from our competitors.
- *Excellence in the Execution of Awarded Projects.* We intend to focus on executing projects on schedule, maintaining high health and safety standards and meeting or exceeding our client's expectations. We intend to do so while ensuring expected profitability.
- *Leverage on our Credentials with Existing Clients.* We intend to leverage our proven quality of execution of projects with existing clients that are considering awarding new projects, focusing on contracting for those projects from a better negotiation position, while also leveraging our reputation, track record and credentials with existing clients to gain access to new clients and markets.
- *Maintaining our Leading Position in Spain.* Spain represents a natural source of business for us, and we intend to continue strengthening our privileged positioning with our Spanish clients.
- *Development of our Infrastructure and Industries Business Division.* We intend to develop our infrastructure and industries business division, which we believe represents a source of stability to our business model that is compatible with the growth provided by our backlog of turnkey projects in the oil and gas and power sectors.

Our Management Priorities

As we seek to implement our strategy over the coming years, we expect our management's attention to be focused on the following four areas in particular:

- *Execution of Projects in our Current Backlog.* We are committed to taking steps to ensure the projects in our backlog are successfully completed on schedule, within budget and following

our quality standards, in order to achieve profitable growth. Successful execution of contracted projects is essential to continue receiving new awards in the future as reputation is essential in our business.

- *Maintaining our Strong Commercial Focus.* We will continue to analyze opportunities not only in our current markets, but also in other markets that could potentially be economically and strategically attractive, while also taking into account potential risks, competition and the investment that would be required to enter a particular market. We intend to focus on the Persian Gulf, Latin America, the Far East, the Mediterranean region (principally North Africa and Turkey) and Spain.

We also intend to focus on building strong relationships with current clients, while seeking to establish relationships with new clients.

The current market environment and our positioning allow us to be selective when bidding on new projects. We intend to carefully analyze potential opportunities and to place bids only on those projects that are attractive from a strategic and economic point of view.

- *Managing Resources for Growth.* We seek to manage our resources in a flexible and efficient way in order to be able to cope with the growth of our business, while completing projects within the established schedules and expected margins.

We intend to further implement flexible recruiting initiatives, including recruiting efforts in our headquarters and in our satellite engineering centers. In addition, we are increasing our use of subcontractors to support the execution of specific projects.

At the same time, we seek to retain our current employees by offering different retention initiatives including on-the-job training programs, and by offering competitive salaries and benefits. We believe our reputation and growth prospects make us an attractive employer.

- *Continuing the Development of Know-How.* Know-how is our critical asset for future growth. Through our almost 50 years of operations, we have acquired substantial know-how in different products with different clients and in different markets, and we believe that this provides us with a strong competitive advantage with respect to new competitors. We intend to continue to develop our know-how base through the execution of new projects in our different business divisions.

Our Business Divisions

The figures in this section with respect to the amount we intend to invoice for specific projects are not accounting figures but have been derived from our contracts and from management estimates. The actual amount that we will invoice is uncertain until we actually invoice for our work, as the income we will receive from a project depends on certain factors that cannot be determined until after a project is completed. As a result, the amount we actually invoice for a project may differ from the amounts stated in this section.

We concentrate our business on three large divisions: (i) oil and gas, which is subdivided into refining and petrochemicals and upstream and natural gas; (ii) power; and (iii) infrastructure and industries. In each of these divisions, we offer our clients a broad range of engineering and construction services for industrial facilities, from feasibility studies or basic and conceptual engineering to complete performance of large and complex turnkey projects including detailed engineering, management of supply, commissioning, start-up and training.

Oil and Gas

Our oil and gas business division comprises two subdivisions: refining and petrochemicals; and upstream and natural gas. This division accounted for 71.0% of our revenues in 2005 and is our most important business division. Our backlog in our oil and gas division as of March 31, 2006 amounted to €2,617 million.

Refining and Petrochemicals

Business and Positioning

We believe that we are today one of the leading European construction companies in this division by number of references, know-how and projects in which we currently participate. Since we began operations, we have designed and constructed approximately 80% of Spanish refining capacity, and in total have built approximately 300 refinery units throughout the world. Our experience in oil processing ranges from constructing complete refineries to modernizations and expansions of existing refining facilities, for both international clients and domestic companies. The types of units designed and constructed include both basic refining units and conversion and octane enhancement units.

We also have extensive experience in the design and construction of auxiliary services and other units (off-site and utilities) for refineries: plants for the treatment of effluents, firefighting systems, boilers, storage areas, electrical substations and torch systems, among others.

Over more than 40 years of experience in the refining sector, we have accumulated know-how sufficient not only to develop and optimize technologies of other licensors and clients, but also to develop complete and specific designs for a large number of refining units. We believe that we have a highly qualified refining process department, with around 200 professionals.

We have gained extensive experience in petrochemicals through the design and construction of more than 90 processing units and plants throughout the world. We have constructed processing units that produce monomers and various kinds of polymers and plastics, and chemical plants and units that produce fertilizers such as diammonium phosphate (DAP), monoammonium phosphate (MAP), nitrogen-phosphate-potassium (NPK) and nitric acid, among others. In the case of chemical plants, we have our own technology, which has been and continues to be used successfully in new industrial processes. Our experience in this area also includes know-how regarding a broad range of technologies used in the production of olefins, aromatics, raw materials for detergents and others.

In addition to Spain, we participate in projects in the Middle East, Latin America, the Far East and the Mediterranean area. In each of these areas, we have received significant references and contract awards from NOCs. NOCs are currently involved in a significant number of large projects throughout the oil and gas value chain. Certain of these NOCs have become repeat clients of ours (for example, Saudi Aramco, Tüpräs and Enap).

Our principal clients in this division are: Saudi Aramco, Sumitomo, Petrovietnam, Tüpräs, Pemex, Enap, Repsol-YPF, Cepsa, General Electric Advanced Materials, Shell, BASF, Sinopec and ExxonMobil.

Principal Current Projects

The most relevant projects that we are currently developing are:

- The Rabigh (Saudi Arabia) refinery for Saudi Aramco and Sumitomo:

This is a large refinery and petrochemical complex contract with client investment of more than US\$4.5 billion, which we won as sole contractor for a turnkey contract relating to the refinery package portion of this project. The contract for this project was signed in

March 2006 and we expect to invoice more than €1.0 billion. This project is currently in the engineering and procurement phase.

The new refinery, which will have a capacity of 200,000 barrels/day, includes a vacuum unit, a diesel hydrotreatment unit, two sulphur recovery trains, units for alkalization, isomerization, acid water regeneration, recovery of ammonia and sulphur, and interconnections. The project also includes remodelling of the existing crude and hydrotreatment units.

Completion is expected in June 2008.

- Yanbu (Saudi Arabia) hydrotreatment complex for Saudi Aramco:

This is our first project in the Middle East area. It includes a diesel hydrodesulphurizer, regeneration of ammonia, acid water treatment and a sulphur recovery unit, as well as auxiliary facilities. The contract for this project was signed in August 2003.

We are the sole contractor for this approximately €215 million turnkey contract. Currently the project is in the final phase of construction. Completion is tentatively expected in June 2006.

- Dung Quat (Vietnam) refinery for Petrovietnam:

This is a landmark project not only because of its complexity and size but also because it is the first refinery in Vietnam. This project is a turnkey project with US\$2 billion of investment by the client, and we expect to invoice approximately €320 million. We are working on this project in association with Technip and JGC. The contract for this project was signed in May 2005, and the project is currently in the engineering and procurement phase.

The refinery, of a new design, includes a crude unit with a capacity of 150,000 barrels/day, units for naptha hydrotreatment, catalytic cracking reform (CCR), treatment of kerosene, fluidized catalytic cracking (FCC), treatment of liquid petroleum gases (LPG) and treatment of naptha, among others.

The project is expected to be completed in January 2009.

- Refinery units in the Minatitlán (México) refinery for Pemex:

These are two turnkey contracts for a total value of US\$640 million of client investment, and we expect to invoice approximately €170 million, for various refining units that will be a part of the modernization and expansion of the Minatitlán refinery. The contracts for these projects were signed in January and February 2005 and the projects are currently in the engineering and procurement phase.

Some of the principal units included in the two projects are: coking, naptha regeneration, naptha hydrosulfurization, hydrogen, diesel hydrosulfurization and sulphur recovery.

We expect that the these projects will be completed in March 2008.

- Expansion of the Izmit (Turkey) refinery for Tüpras:

This is a US\$240 million turnkey project and we expect to invoice approximately €160 million. This contract was awarded to us in a consortium with the Korean company GS (formerly LG) and two local partners. This project involves upgrading the facilities to come into compliance with EU environmental standards and includes: hydrotreatment of naptha, CCR, treatment of diesel and kerosene and a cogeneration plant.

This project is currently in the advanced construction phase. The contract for this project was signed in November 2002 and completion is contemplated for the second half of 2006.

- Expansion of the Kirikkale (Turkey) refinery for Tüpras:

This project is very similar to the Izmit project, with total client investment of US\$270 million, and is also in consortium with GS and two local partners. We expect to invoice approximately €70 million. The purpose of both projects is to improve the quality of products to adjust them to EU standards and rules. The contract for this project was signed in July 2004 and we expect completion to occur in July 2007. The contract is currently in the engineering and procurement phase.

- Coking unit for Enap (Chile):

We signed this contract in July 2005 for the construction of a coking plant in association with two other companies. The total client investment will be approximately €300 million and we expect to invoice more than €100 million. It is the eighth contract that we have undertaken for Enap. The project is currently in the engineering and procurement phase, and we expect that it will be completed in January 2008.

- Cumene unit in Huelva (Spain) for Ertisa, S.A.:

We began this turnkey project in July 2005. We are the sole contractor on this project and expect to invoice approximately €70 million for a cumene unit within the phenol-cumene complex. This project is currently in the construction phase, and completion is expected in November 2006.

- High polymers plant in Cartagena (Spain) for General Electric Advanced Materials (formerly known as General Electric Plastic):

This is the fourth project we have undertaken to provide services to General Electric in its Cartagena facilities. The plant will be for the production of a new high polymer called “Ultem”. We signed the contract for this project in November 2005. Invoicing for this project is based on the number of hours worked.

This project is currently in the engineering and procurement phase, and completion is expected in October 2007.

Upstream and Natural Gas

Business and Positioning

The upstream and natural gas subdivision is involved in the engineering and construction of facilities for production and extraction of oil and in the entire value chain from production to processing, storage and transport of natural gas. The growth of this business subdivision was significantly enhanced by our acquisition of the industrial plants division of Initec during its privatization in the 2000. Since then, by taking advantage of our extensive international business, our presence in growth markets for this business subdivision such as the countries of the Middle East and the Mediterranean, and the capacity and experience in management of large turnkey projects, the number of projects in this division and their significance have become a larger part of our total business volume.

We believe that our experience in regasification terminals, in which liquefied natural gas is converted back into its gaseous form, is among the most significant of all companies in the sector in Spain. We have designed and supervised the construction of most of the terminals in Spain, which represents approximately 50% of regasification capacity for all of Europe, placing Spain among the top three countries in regasification capacity in the world, according to Wood Mackenzie—Global LNG Online.

We believe that our experience in transport of oil and gas is also very significant. We estimate that we have designed approximately 80% of the oil and gas pipelines in the domestic Spanish network (as measured by installed kilometres). We have also participated in many international projects of this kind.

Our current clients in this business division are: Saudi Aramco, KOC, ORC, PDO, Sonatrach, Repsol-YPF, Gas Natural, Cepsa and Enagas.

Principal Recent and Current Projects

The principal recent projects that we have completed are:

- Oil production project in Algeria for Cepsa and Sonatrach

We recently participated in the most important oil production project in Algeria, as measured by reserves and investment made by the client. This was the development of the Ourhoud oilfield for Cepsa and Sonatrach. This project involved client investment of more than US\$700 million and we invoiced approximately €140 million. This project was performed in association with the Japanese company JGC. We began this project in July 2000 and it was completed in January 2003.

- Liquefied natural gas plant for Segas in Egypt

Last November, we successfully guarantee tested the liquefied natural gas (LNG) plant built by the consortium comprised of KBR, JGC and us in the port of Damietta (Egypt) for Segas (in which the Unión Fenosa group holds an interest). The term for completion of the project was the shortest in history for this kind of project (as indicated by Segas), and it is the highest capacity single train liquefaction plant in the world. This was the first plant of this type constructed in Egypt. This is the fourth turnkey project that we have undertaken in Egypt over the last five years.

We also participated actively in the three operations centers for the project located in Madrid, London and Damietta, and in all stages of work including management, engineering, procurement and construction supervision, using multidisciplinary equipment. A total of 300 of our personnel provided approximately 850,000 hours of work for this project (including approximately 600,000 hours of engineering) and we invoiced approximately €330 million.

The principal projects that we are currently undertaking in the upstream and natural gas subdivision are:

- Natural gas fractionating plant in Juaymah (Saudi Arabia) for Saudi Aramco:

This is a turnkey contract with around €260 million in client investment, and we are the sole contractor. The project consists of expansion by Saudi Aramco of the fractionating capacity of the existing facilities, basically for fractionating ethane and propane, modifying the three existing modules and including a new fourth module. We executed the contract for this project in March 2005 and completion is expected in January 2008. The project is currently in the engineering and procurement phase.

- Natural gas treatment plant in Hawiyah (Saudi Arabia) for Saudi Aramco:

This project is contracted on a turnkey basis. We are the sole contractor on this project, and expect to invoice approximately €320 million. The purpose of this project is to expand Hawiyah's natural gas processing facilities to 2,553 billion cubic feet.

We signed the contract for this project in November 2005 and completion is expected in October 2008. This project is currently in the engineering and procurement phase.

- Expansion of the GC-28 for KOC (Kuwait):

The purpose of this turnkey project is to expand the gathering center of 28 facilities for collection of crude oil coming from the Minagish, Mishrif, Wara and Burgan wells located in the coastal area of Kuwait, and the preliminary processing of that crude oil (elimination of salt, water and gases) to prepare it for later transport. The final capacity of the facilities will be 280,000 barrels/day.

We are the sole contractor for this project and expect to invoice approximately €90 million. We signed the contract for this project in February 2005 and expected completion to occur in July 2007. This project is currently in the engineering and procurement phase.

Power

Business and Positioning

The power division accounted for 18.0% of our revenues during 2005. Our backlog in the power division as of March 31, 2006 was €198 million.

Over the past 35 years in this field, we have undertaken more than 45 million hours of engineering, purchasing management, construction and start-up work in connection with our participation in projects with total installed capacity of more than 30,000 MW in 25 countries. Although our current focus is mainly on combined cycle facilities, our experience also includes conventional thermal, integrated gasification and combined cycle (IGCC) plants, nuclear, cogeneration, solar, fuel cell, solid waste and biomass plants and various energy efficiency projects.

The services we offer include consulting, engineering, procurement and construction across a variety of electricity generation facilities, as well as turnkey supply of plants and, occasionally, exploitation, operation and maintenance services for plants.

In the nuclear sector, we believe that *Empresarios Agrupados* (in which we are the largest shareholder with 43% ownership) has unique experience in the design of plants in Spain. It has designed the Almaráz, Ascó, José Cabrera, Cofrentes, Santa María de Garoña, Trillo, Valdecaballeros and Vandellos nuclear plants in Spain. In addition, it currently provides maintenance and operating services in the Trillo, Alamaraz, Vandellós and Santa María de Garoña nuclear plants.

In the combined cycle sector, since contracting for the first projects in 1999, we believe that we have managed to strongly position ourselves in Spain in this sector. We have participated in 15 of the combined cycle projects undertaken in Spain, totalling 8,380 MW of installed power.

In most of these projects, we acted in our capacity as a selected contractor of General Electric Power for Spain and other countries in the area, developing all of the design and procurement for the systems and facilities required for the balance of plant (BOP), and the complete construction and assembly of these plants.

Our clients in this division are electricity generation and distribution companies, governmental agencies, the cogenerating industry and independent electricity producers. Our principal clients in this division are Endesa, Gas Natural, Iberdrola, Unión Fenosa and General Electric.

Principal Current Projects

Our principal combined cycle projects are the following:

- 800 MW combined cycle in Plana del Vent (Tarragona, Spain) for the Gas Natural Group:

We entered into the contract for this turnkey project in February 2005 and expect this project to conclude in July 2007. We are the leader of the joint venture responsible for

construction of the BOP. The client investment in the BOP is €210 million and we expect to invoice approximately €120 million. Total investment in the project is more than €350 million. This project is currently in the initial construction phase.

- 800 MW combined cycle in As Pontes (La Coruña, Spain) for the Endesa Group:

We entered into the contract for this turnkey project, with a total investment of approximately €300 million, in December 2004. This project is expected to conclude in February 2008. We participate in construction of the BOP, in which client investment is more than €170 million in the BOP. We expect to invoice approximately €78 million. This project is currently in the initial construction phase.

- 220 MW combined cycle in Barranco de Tirajana (Gran Canaria, Spain) for the Endesa Group:

We entered into the contract for this turnkey project in December 2004 and this project is currently expected to conclude in July 2007. This project has been undertaken in stages, adapted to the growth of demand on the island. The client investment in this project is more than €100 million and we expect to invoice approximately €75 million. At present, this project is in the engineering and procurement phase.

- Gasification integrated with a combined cycle plant in Fujian (China) for Sinpoec, Exxon and Saudi Aramco.

We were awarded this project in association with Foster Wheeler Italy in March 2006. This project involves the execution of the front-end engineering design (FEED) for this unit, which will form part of our clients' investment in the Fujian refinery. This project is currently in the design phase, which we expect to be completed in the first quarter of 2007. Following completion of the design phase, we expect to begin work on this turnkey project.

In addition, through our participation in *Empresarios Agrupados*, we are a party to various service agreements with General Electric Power Systems and Public Power Corporation, the Greek national electricity company, for design and engineering services and management of procurement services for a variety of combined cycle power plants.

We are currently working on the first two domestic projects for production of biodiesel:

- Biodiesel plant for Biocombustibles de Cuenca, S.A., Cuenca:

This is a turnkey project to obtain 40,000 tons per annum of biodiesel from vegetable oils (rapeseed, soy, sunflower), as a replacement for traditional diesel. The term of the project is expected to run from April 2005 to September 2006. Client investment in this project will be €16 million, and we expect to invoice the full €16 million, as we are the sole contractor. This project is currently in the engineering phase.

- Biodiesel plant in Ocaña (Toledo, Spain) for Biocarburantes Castilla La Mancha, S.A.:

This is a turnkey project similar to the one for Biocombustibles de Cuenca, S.A., but with a capacity of 100,000 tons per annum of biodiesel. The project began in August 2005 and is expected to end in January 2007. Client investment in this project will be €21 million, and we expect to invoice the full €21 million, as we are the sole contractor. This project is currently in the engineering phase.

Also, through our participation in *Empresarios Agrupados*, we participate in various service contracts with respect to projects in the nuclear sector, such as the development of a 1,500 MW nuclear prototype or the design of two reactors for the Lungmen plant, both in partnership with GE Nuclear.

Infrastructure and Industries

Business and Positioning

Our infrastructure and industries business division accounted for 11.0% of our revenues in 2005.

The acquisition of the infrastructure division of Initec by us as a part of Initec's 2000 privatization led to a reorganization of our infrastructure business. As a result of the reorganization and work undertaken since then, the infrastructure and industries division has positioned us as one of the largest domestic companies for the design and construction of industrial and civil infrastructure in our lines of business within this business division. The principal lines of business in this division include engineering and construction of facilities mainly in Spain relating to: water treatment, desalination, airports, ports and recycling. We apply the same safety and quality criteria to our infrastructure projects as we do in our other projects. The services in this division cover all matters related to engineering, supply of equipment and materials, construction and, occasionally, operation of facilities. We believe that our capacity to cover all stages of a given project distinguishes from competitors in this sector.

Our clients in the infrastructure and industries division on are principally governments or related agencies such as ministries for the environment, development and the interior, autonomous communities, city councils, municipal boards, the Spanish governmental airport operator (Aena) and the Spanish railroad infrastructure operator (GIF), among others, which need to invest in infrastructure facilities on a recurring basis, and along with some private industrial clients.

We have undertaken approximately 80 infrastructure projects per annum over the past three years. Most of them have been services contracts, which contributes to very stable and recurring profitability for this business.

In addition to the infrastructure-type projects described above, this business division also includes other activities that we undertake that, because of their duration, recurring nature, type of service provided or small size, are more appropriately allocated to our infrastructure and industries division than to any of our other divisions.

Principal Current Projects

The principal projects currently being undertaken in this division are:

- Rambla de Morales (Almería) desalination plant for the regional government of Andalusia and the Community of Regantes.

The contract for this project was signed in June 2002. Client investment in this project is expected to be €43 million, and we expect to invoice approximately €39 million. We expect completion to occur in June 2006.

- Facilities for final assembly of the A-400 M military aircraft for the European Aeronautic Defence and Space Company N.V. (EADS-Casa) in Seville.

The contract for this project was signed in January 2004. Client investment in this project is expected to be €155 million, and we expect to invoice approximately €3 million. We expect completion to occur in December 2008.

- Facilities for production of carbon fiber in Illescas (Madrid) for HEXCEL Fibers, S.L.

This project began in December 2005. Client investment in this project is expected to be €44 million, and we expect to invoice approximately €16 million. We expect completion to occur in January 2008.

- Design and management of work for the new airport terminal in Santiago (La Coruña).

This project began in February 2006. Client investment in this project is expected to be €135 million, and we expect to invoice approximately €5 million. We expect completion to occur in May 2010.

Contract Types

We are specialized in offering our services under turnkey contracts and services contracts.

The structure of the price for these contracts varies widely. It can be agreed as a fixed price or “fixed fee” or a margin above cost (cost plus). The most commonly used contracts are fixed-price contracts. The currency of the contract varies substantially depending on the type of project and the place it is performed, although the US dollar is the most frequently used currency.

We also execute technology and process license agreements, procurement agreements for equipment and materials, subcontracts (especially for the construction and assembly phase of projects) and financing agreements.

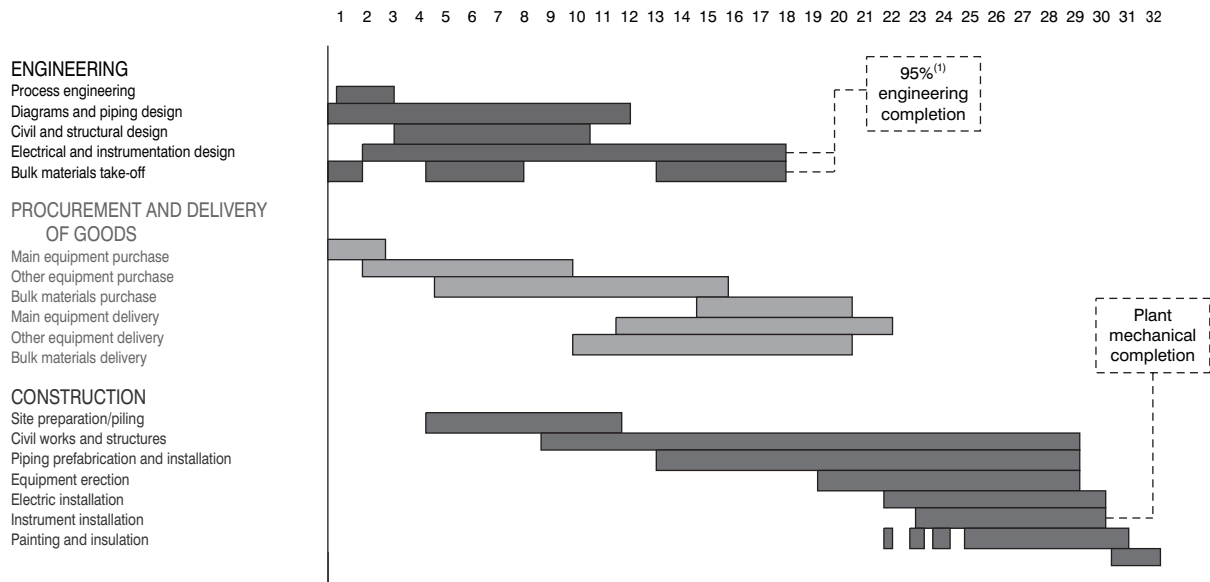
The most relevant aspects of these contracts are described below.

Turnkey Contracts

A turnkey contract comprises a complete package of services for the performance of an industrial project until start-up and delivery to the client. These contracts contemplate both engineering and design services for the industrial facilities and management of procurement and delivery of equipment and materials, and the construction of the facilities and other related services, such as technical assistance, construction supervision, works management and technical management, among others.

The average term for performance of a turnkey contract varies from 28 to 36 months. The engineering phase includes the final design of the project, the civil engineering design, channelling and structures, electrical and instrumentation design, and selection of equipment and materials. The procurement and delivery phase includes management of the purchase of the principal equipment and other equipment, the purchase of materials and the activation, inspection, transportation and delivery of such equipment and materials to the plant. The construction phase includes preparation and fitting out of land, construction of civil works and structures, pre-fabrication and installation of channelling, securing and installing equipment, electrical and instrumentation installation, insulation and painting and start-up.

The following diagram shows the evolution and progress over time of a typical 32-month project, and the interrelationship of the various phases and actions.



(1) The remaining 5% of the engineering is distributed on a very irregular basis over time until completion of the project.

During the year ended December 31, 2005, turnkey contracts accounted for most of our revenues.

The process for awarding turnkey projects generally is lengthy and involves extensive sales efforts by us with the potential client. This process generally begins with an analysis of the project, a decision regarding the bidding strategy and preparation of the documentation for prequalification and preselection by the client. Once preselected, we prepare the technical and monetary bids to be presented to and negotiated with the client. The negotiations regarding the specific design, the operating parameters and construction schedule generally take several weeks, or even months. Our experience is that the final decision to award a turnkey contract generally depends partly on the competitiveness of the price that is offered (particularly for projects in developing countries). However, credibility and experience, financial solvency and technological capability, as well as the personnel assigned to the project, also influence the decision.

Our turnkey contracts include standard clauses for the termination of the contract, the guarantee of proper and timely performance, the limitation of liability and the limitation of subcontracting. Although we have experienced some litigation with respect to our turnkey contracts, there have generally been few disputes.

In recent years, there has been a tendency for clients to accept a turnkey contract variant that consists of dividing the structure of remuneration into two different formulas, based on a time factor. In the initial phases of the project, aimed at performing and/or scheduling the engineering and procurement of basic equipment, both of which are necessary in order to be able to complete the facility by a determined date, compensation is structured in the form of payments for administrative expenses or reimbursable expenses. Thereafter, for the construction and turnkey delivery phases, the compensation is converted into a classic “fixed fee” structure. This kind of contract provides advantages for both parties. In particular, we can substantially limit the risks inherent in the project. This is because, during the initial phase, we can collect the expenses we incur and, in a typical turnkey project,

precisely identify the terms, difficulties and costs of the construction and delivery phase. On that basis, we can negotiate the fixed price corresponding to the final phase.

Services Contracts

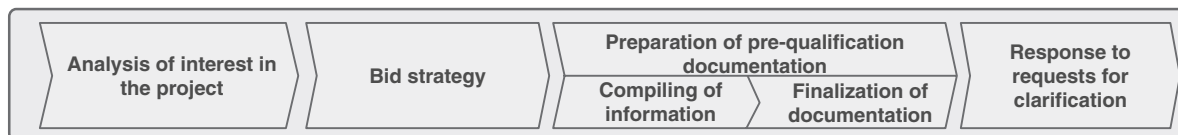
Among the services that we provide under services contracts are those with respect to engineering services, feasibility studies, performance of basic and conceptual or detailed engineering, management services, start-up services, services for the operation of industrial plants, and maintenance services, among others. Frequently, several of these services are provided at the same time under one contract. Compared with turnkey contracts, services contracts generally have shorter terms, the amounts invoiced generally are lower, and they generally are less of a risk to us because they do not require us to supply equipment.

The Contracting Process

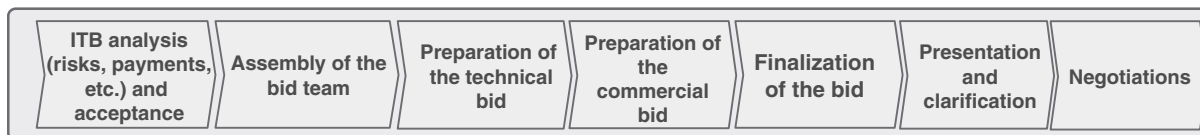
The typical elements of the overall cycle of any project in which we participate include the commercial activities of prequalification and bidding, which lead to the award and entering into the contract for the project, and performance of the project until completion. Given the complexity, size and risk of our projects, the process leading to contracting is of great importance. In general, once we have decided to participate in the pre-qualification and other stages, the length of the contracting process varies from four weeks (for smaller contracts or infrastructure contracts) to six months (for large turnkey projects).

The following figure shows the stages and evolution of the contracting process that we apply. They are not significantly different from the standard models applied in the market.

Pre-qualification



Bid



Currently, there are a large number of projects in the markets in which we operate that are in their initial bidding stage. In line with our policies regarding diversification and other selective criteria, we are currently analyzing approximately 30 potential projects (with an estimated total value of more than €40 billion). We believe that these projects will be awarded in the short to medium term. We are unable to provide any estimates as to the outcome of the bidding process and as to whether any of these projects will end up being incorporated into our backlog.

Backlog

Our backlog at March 31, 2006 amounted to €2,815 million, an increase of 64.4% with respect to our backlog at December 31, 2005. For a description of how we calculate our backlog, see “Presentation of Financial and Other Information”.

As of March 31, 2006 and December 31, 2005, 2004 and 2003, our backlog was distributed among the two business divisions included in our backlog as follows:

	As of March 31, 2006	As of December 31,		
		2005	2004	2003
		(euro in millions)		
Oil and gas	2,617	1,485	816	690
Power	198	227	167	46
Total⁽¹⁾	2,815	1,712	983	736

(1) As a matter of policy, we do not include projects from our infrastructure and industries division in our backlog calculation. Projects in this business division generally have a life of less than one year, and, because of the short-term nature of many of these projects, we do not consider it appropriate to estimate revenues from these projects in the following accounting year and include them in our backlog.

The following table describes the principal projects comprising our backlog as of March 31, 2006:

	Project	Country	Client	Estimated Completion
Refining and Petrochemicals	Rabigh	Saudi Arabia	Saudi Aramco	2008
	Yanbu	Saudi Arabia	Saudi Aramco	2006
	Luján/Ensenada	Argentina	Repsol-YPF	2008
	Coker	Chile	Enap	2008
	Nitric Acid Plant	Chile	Enaex	2008
	HDS—Bio Bio	Chile	Enap	2008
	Refining Units	Mexico	Pemex	2008
	Dung Quat	Vietnam	Petrovietnam	2009
	Kirikkale	Turkey	Tüpras	2007
	Izmit	Turkey	Tüpras	2006
	Polymer Plant	Spain	General Electric	2007
	Phenol-Cumene Plant	Spain	Cepsa	2006
Upstream and Natural Gas	Ju'aymah	Saudi Arabia	Saudi Aramco	2008
	Hawiyah	Saudi Arabia	Saudi Aramco	2008
	GC-28	Kuwait	KOC	2007
	Telemetry	Kuwait	KOC	2007
	TFT	Algeria	Total/Repsol-YPF/Sonatrach	2008
	RKF	Algeria	Cepsa/Sonatrach	2008
Power	Plana del Vent	Spain	Gas Natural	2008
	As Pontes	Spain	Endesa	2008
	Barranco de Tirajana	Spain	Endesa	2007
	Ocaña/Cuenca	Spain	—	2006

The timing and amount of our backlog is subject to adjustments and some projects in our backlog might not be realized. See “Risk Factors—Our backlog is subject to unexpected adjustments and project cancellations and is, therefore, an uncertain indicator of future earnings”.

The level of development of the contracted projects in our backlog at March 31, 2006 was between 25% and 30%. Such average level of development is subject to significant variation depending on the actual date of calculation. The largest projects within our backlog at March 31, 2006 are the projects awarded more recently and are therefore at an initial phase of execution.

Risk Management

Based on our prior analysis and performance of large projects and our know-how regarding procurement formulas and the technological needs of projects, we believe that we have been able to use that information to prepare and negotiate bids in such a manner that the risks of the projects have not historically significantly compromised our reputation or results of operations. Our experience with turnkey projects dates back to 1963.

Turnkey contracts nevertheless involve some unique risks. They are subject, among other risks, to substantial changes in prices for procurement of equipment and materials and subcontractor prices for labour due to inflation, unforeseen events, financing obtained by clients, securing governmental permits, cost increases due to project changes, delays resulting from natural causes (local weather conditions) or breaches by suppliers and subcontractors. We try to minimize those risks by reflecting relevant contingencies in the price, as well as through appropriate contractual provisions and through the use of insurance policies.

In response to these risks, we have adopted management policies for the identification and management of contractual and other risks, including adoption of the following measures:

- We make a strict and careful selection of projects, which begins with prior detailed analysis of each client, market, geographical area and country in which we expect to work, and the establishment of a local presence before bidding. For each specific project that we contemplate, we conduct an extensive analysis of the project's margins as well as its risks. We frequently reject projects, especially when we believe the margin may not cover the identified risks.
- The geopolitical risk involved in certain emerging markets also is mitigated by our geographical diversification policy. There also is diversification regarding the kinds of clients and kinds of products or projects undertaken. In addition, there is a policy of selective agreements with local partners or international contractors. We believe we have achieved balance in our marketing efforts among NOCs such as Saudi Aramco, Enap, KOC, PDO, Tüprás, Pemex, Sonatrach, Sinopec and Petrovietnam, large multinationals such as Shell, BP, General Electric and BASF, large Spanish groups such as Repsol-YPF, Endesa, Gas Natural and Cepsa, and Spanish governmental authorities.

Further, we have reduced the volatility inherent in our business by increasing our work for existing clients, such as infrastructure projects, real estate engineering projects and industrial maintenance services, among others.

- We work with other engineering and construction companies (in joint ventures to share the risks inherent in a project or to combine financial capacity (access to guarantees, financing, etc.), technological capacity or efficient use of human and other resources to successfully bid on other projects. These joint ventures generally are formed for the sole purpose of undertaking a specific very large project when, given the size or positioning of the client or the country, it is advisable to diversify risk or, for example, work with construction partners. We currently have associations with General Electric in Spain and the United States, with Technip in Vietnam and Italy, with GS in Turkey, KBR and JGC in Egypt, with MAN Ferrostaal and Skanska in Peru, Chile and Argentina and with Odebrecht in Mexico. These structures are dissolved upon completion of the project, which is when the corresponding

guarantees expire. Approximately 70% of our backlog consists of projects for which we are the sole contractor.

Because these joint ventures generally are structured in such a manner that each of the participants is jointly and severally liable to the client (so we may have liability for breach of another participant), we carefully analyze the possible participants and their possible liability before signing these agreements. In addition, we require that the internal agreements among the participants in these joint ventures expressly contemplate the sharing or distribution of liabilities among the participants, as well as the reciprocal posting of guarantees to assure performance of those responsibilities.

We typically take a leading position in management of our projects. In the exceptional cases in which this is not the case, we control the risks by assuring that our personnel are included in the management teams having responsibility for the work to be performed.

- We ensure that we have adequate technical capacity to perform the projects. We also work to employ experienced personnel for project engineering and design, to ensure that subsequent implementation is on a timely and proper basis, to comply with applicable environmental law and regulation and contractual obligations, and to avoid changes that may delay progress of the project or increase costs.
- We seek to maintain a strong financial position to ensure we are financially able to develop large projects. In this regard, we analyze the possible financial contingencies (for example, currency fluctuations) and technical contingencies (for example, penalties for breach or delay). In case of a financial contingency, possible accounting and economic impacts are evaluated in order to minimize potential risks. In case of a technical contingency, providing that its occurrence is probable, it is considered as an additional cost of each project, and is included in the project budget.
- We seek to negotiate contracts with the potential client rather than using forms provided by the client, including the negotiation of payment schedules in order to adjust them to schedules for procurement of materials and the various phases of the specific project as well as the removal of penalties or liabilities on our part in the event of delays arising as a result of a force majeure event such as any natural disaster, an outbreak of hostilities or regulatory changes, among others. Further, to the extent possible we negotiate for clients to assume the financial risk of currency fluctuations, either by making all payments in euro or other currencies considered to be stable, or by making payments in the currencies and amounts we have incurred for payments to suppliers and subcontractors.
- We seek the selection of and contracting with suppliers and subcontractors of proven technical and financial solvency. Contracts with these suppliers and subcontractors generally include standard liability clauses, in particular regarding materials, civil works, assembly and construction. Occasionally construction contracts are in the form of turnkey contracts. Under these contracts, the subcontractors assume all responsibility for construction until start-up and delivery.
- We seek appropriate and specialized insurance to cover financial risks (non-payment, currency fluctuations) and technical, design, construction and accident risks. These risks are covered by a global coverage insurance policy that provides €760 million of coverage. In addition, we have separate insurance policies that cover the transport of equipment to our projects.

We implement and review the foregoing measures using our internal risk control and management procedures described below.

Project and bid analysis phase.

- The process begins with identification of the risks by the bidding department and technical office. The technical risks of engineering, procurement and construction are evaluated. The contracts department reviews the client's draft contracts and prepares a report regarding problematic matters and omissions. The corporate development team makes an initial decision regarding appropriate changes in the bid.
- Thereafter, the process of evaluation and, if applicable, approval of contingencies begins. In this process the corporate development team reviews the technical bid and reports regarding the contracts, adjusts the risks and contingencies from the point of view of business risk, and prepares a draft bid. The executive committee reviews the draft bid and, if applicable, approves it and fixes the final price.
- Thereafter, the negotiation of the final contract begins. The bid is sent to the client with the comments on the draft contracts. New versions of the contracts are reviewed and discussed with the client. Finally, the definitive versions of the contracts are submitted to the executive committee. The executive committee reviews and, if applicable, accepts the final versions of the contracts and approves the bid.

Project performance phase.

- During performance of a project there is a risk monitoring process. The project team monitors the evolution of risks identified in the contractual documentation and identifies any new risks as may arise. The project team and leader decide what information is to be communicated to the company managers. It is the responsibility of the project leader to advise management of the progress of the project and the risk tracking.
- Thereafter, a deviation analysis process begins. The project team analyzes the possibility that risks will occur and the possible impact using flexible and non-uniform criteria. Also, the project team ranks the risks by probability of occurrence and identifies those requiring the adoption of decisions or measures.
- Finally a process of adoption of corrective measures is applied. The project team identifies and analyzes the causes based on probable contingencies. It evaluates alternative measures, estimates the cost of each measure and selects the specific measure to be adopted.

Safety

We are highly committed to the establishment of demanding levels of safety for our personnel and our subcontractors. We have developed our own health and safety policies, which are adopted by each of our divisions and adjusted to the specific scope of each project.

Safety Management System

We use the Safety Management System to plan, conceive, design and implement programs and monitor safety results with a view to continuous improvement.

The management system used covers the following matters:

- Safety policy integrated with health and respect for the environment.
- Planning of objectives for the entire organization, and procedures to identify danger, evaluate risk, implement control measures and identify contractual and legal requirements.
- Implementation of safety plans using documentation communicated among personnel and procedures to identify risks and possible responses thereto.

- Periodic checking and measurement of safety performance using procedures for research, mitigation, corrective action and prevention of accidents, incidents and violations. These matters are entered into and periodically audited by the system.
- Periodic review of the system by our management to assure continuous adaptation and effectiveness.

Safety Statistics

Safety statistics are one of the quantitative methods used to evaluate safety performance. In Spain the most relevant indexes we use, following instructions of the ILO (International Labour Organization) is the FI (Frequency Index). Since 2001 this index has decreased by 60% in the construction sector in Spain, reaching 17. Our FI in 2005 was 6.71.

The indexes most used abroad are those of the OSHA (Occupational Safety and Health Administration) system, in particular the LTIR (lost time incident rate) and the TRIR (total registerable incident rate). Applying these indexes to our overall work, our LTIR has decreased from 2.09 in 2001 reaching 0.28 in 2005, and the decrease in our TRIR for the same period has decreased from 2.53 in 2001, reaching 0.67 in 2005.

Although there are no worldwide indexes for comparison, we believe these frequency indexes show a good level for our operations when compared with annual values of the International Oil and Gas Producers Association, which shows an LTIR and a TRIR at levels in line with our performance levels.

Trends in our Principal Markets

Oil and Gas

The demand for engineering and construction services for the oil and gas sector depends on the investments made by the oil and gas companies. This, in turn, is mainly determined by the demand for and prices of oil and gas and refining margins.

Recently, the worldwide capacity for the production of oil and gas has only been marginally in excess of demand, which has caused a significant increase in oil and gas prices since 2004.

Moreover, the additional capacity that is necessary to respond to the increasing levels of demand for oil and gas products is going to require an increased level of investment in all areas relating to oil and gas production facilities. According to World Energy Outlook 2005—Middle East and North Africa Insight, energy demand, primarily with respect to oil and gas, will continue to increase over the next 25 years. Over the long term, crude oil production in the OPEC nations, especially in the Middle East, is expected to grow more rapidly than in other parts of the world because of the reserves of OPEC nations are larger and their costs of production are generally lower than in other parts of the world.

In addition, because the development of new oil and gas reserves is occurring in more remote parts of the world, without sufficient current infrastructure to make these reserves accessible to the market, it is likely that a significant investment will be required in these areas. These factors make it more likely that a greater number of projects, including both the construction of new facilities and the modernization of existing facilities, being available to companies like us for the design and engineering and construction of required facilities.

With respect to the increase in demand for natural gas, according to World Energy Outlook 2005—Middle East and North Africa Insight by 2020 natural gas will be the second most important fuel in the world (behind oil) and will comprise 23% of the energy fuel used in the world. This will bring

with it the need for increased investment for natural gas production facilities, and the need of LNG-related facilities and pipelines to transport the natural gas to the consuming market.

At the same time, the same publication predicts investment between 2004 and 2030 in the oil sector of US\$3 trillion and in the natural gas sector of US\$3 trillion on a worldwide basis. Of the US\$3 trillion associated with the oil sector, it is estimated that three-fourths will be for exploration and production and of the US\$3 trillion associated with the gas sector, 60% will be for exploration and production. In the Middle East alone, these investments are expected to be US\$835 billion during the period. It is expected that the bulk of investment in the Middle East will be controlled by NOCs, which tend to control the entire chain of production and processing of hydrocarbon reserves in these countries.

With respect to refining, after 30 years in which refining capacity far exceeded demand, the lack of investment in recent years has caused the margin between refining capacity and demand to decrease substantially and to almost disappear and, consequently, production has been impaired. As a result, according to the IEA Oil Market Report, NWE Brent Cracking refining margins have increased from US\$0.38 per barrel as at January 2002 to US\$4.08 as at March 2006, which indicates the need for capacity additional and which we expect will provide incentive for investment in refining.

According to World Energy Outlook 2005—Middle East and North Africa Insight, capacity for distillation will need to increase from 83 million barrels per day (mb/d) to 93 mb/d in 2010 and 118 mb/d in 2030. Moreover, a significant portion of crude reserves today consist of heavy crude, which requires producers to invest more heavily in facilities able to convert heavy crude into a usable form. This is the case, for example, in Venezuela and Canada.

Also according to World Energy Outlook 2005—Middle East and North Africa Insight, investment in refining during 2004 to 2030 is expected to be US\$487 billion, or US\$18.7 billion annually. It is expected that almost a fourth of those investments will be made in North Africa and the Middle East, with Saudi Arabia accounting for 30% of the amount in the region.

As a result of the foregoing, we are confident that investment in refinery facilities will continue to increase. Above all, this will be a consequence of growth in demand, starting from a deficit in supply of gasoline and diesel, the necessary expansion of refinery conversion capacity, and the reforms required to comply with the increasingly strict specifications of environmental rules.

In Spain, in accordance with the National Energy Plan covering the period from 2002-2011, there will be a need to increase transport and storage capacities and the regasification plants situated along the Spanish coast. The National Energy Plan also contemplates increased investment during the period in storage facilities for liquefied natural gas (LNG).

In addition to the need for investment mentioned above, large oil and gas companies are likely to continue to invest in the oil and gas sector at increasing levels because (i) oil and gas companies are finding themselves in a financial position that enables them to make additional investments and (ii) the increase in oil and gas prices and refining margins lend themselves towards increasing investment.

Power

According to Enagás and based on the 2006 update to the Spanish National Energy Plan covering the period from 2002 - 2011, the Spanish government is targeting CCGT installed capacity to increase from 10,420 MW in 2005 to 29,600 MW by 2011. (Source: Enagás investor presentation, April 2006).

In the nuclear sector, we continue to be associated with Empresarios Agrupados, which has extensive expertise in the design of nuclear projects in Spain and is one of the few companies with such expertise in the world and, therefore, we believe we are in a good position to secure additional

contracts in the future. Although no new nuclear power plants have recently been constructed, the nuclear debate in Europe has reopened.

With approval in the summer of 2005 of the Renewable Energy Plan for 2005 to 2010, a biodiesel production goal of 1,350,000 tons was established for Spain for the year 2010. Domestic production in 2004 was 13,000 tons, just 1% of the 2010 goal. This plan is being implemented because of the need to reduce emissions, especially of greenhouse gases (CO₂), by replacing the use of fossil fuels such as diesel and gasoline in automobiles.

Infrastructure and Industries

Based on the Spanish government's Infrastructure and Transport Plan 2005 - 2020 and CEOE (Spanish Entrepreneur Associations) Plan 2005 - 2012, we believe that new opportunities will be presented in Spain to participate in operation and concession of projects in the sectors in which we are active, in most cases involving construction thereof. In part, we believe that there will be significant investment in desalination and water treatment during the period.

Competition

Our competition varies based on the business segment in question. In large projects in the oil and gas production and processing sector, the competition generally is from a small list of companies having sufficient capacity to undertake these projects. In fact in most cases it is the client itself, using detailed prequalification processes, that preselects the companies it considers to be capable of handling its project. In the sector, the most significant barriers to entry of new competitors are:

- The need for a good reputation, references and institutional relationships to access markets and clients.
- The need for a high level of technological knowledge (including the quality of computer and communications systems), experience and know-how.
- The need for experience in the management of large projects, adjusting to contingencies and schedules, and managing risks.
- The high risk associated with the business for competitors who lack expertise, and the requirement of sufficient size and financial capacity to evaluate the risks inherent in the business.
- The limited availability of personnel experienced in on-site management and performance of the services.
- The necessity of access to sophisticated suppliers of equipment and materials at competitive prices.
- The need to maintain very high safety, health and environmental standards.
- The need for experience in the management of large projects, adapting to budgets and schedules and controlling risks.
- The existence of strong competitors with well-known brands.

Despite the foregoing, recently new competitors have entered this sector, specifically in the turnkey area. They have overcome the entry barriers by reason of their experience in comparable sectors. They are drawn by attractive margins. There also have been entries by companies that had not been present in the same markets as we are.

In the oil and gas sector, our typical competitors are the larger international engineering and construction firms such as the European companies Technip, Saipem, Petrofac, UHDE and Tecnimont, the Japanese companies JGC, Chiyoda and Toyo, and the Korean companies Hyundai, SK and GS.

In our power division, and more specifically with respect to combined cycle plants, we typically do not encounter significant direct competition in Spain, aside from of the internal engineering units at some of the players in the power market. Instead, the company providing the BOP for the facilities usually encounters competition. The technology behind a BOP can differ depending on the manufacturer, of which there are four: General Electric (for which we are the selected contractor), Mitsubishi, Alstom or Siemens, and those companies compete with each other. In our case, we act as a technology partner for the design and supply of the balance of plant and construction and assembly of the overall facilities.

In the nuclear generation sector, we believe that through Empresarios Agrupados we have maintained our position as the main provider of engineering services for this kind of plant in Spain, and one of the few in the international market. For this reason, we believe we are in a good position with respect to possible future projects of this kind in Spain.

In the infrastructure sector, our competitors in Spain are quite different from one project to the next. This is due to the many kinds of different contracts in each of the specialization areas in the sector. In addition, in many cases the companies participating in some of these projects are local installation companies that do not participate in similar investments in other areas. In addition, there are few companies capable of providing the full range of services for these projects, including design and construction of the facilities.

Research and Development, Patents and Licenses

Licenses

We sign license and confidentiality agreements with third parties for the use of certain technology, processes or know-how owned by them, with respect to industrial projects awarded to us. Having these licenses is a necessary requirement for performance of our business. For that reason, we strive to maintain good relationships with the principal licensors of oil refining and petrochemical processes. We are a party to more than 500 license and confidentiality agreements.

Research, Development and Innovation; Patents

Research, development and innovation have been inherent in our business from the beginning. The techniques developed have been applied in the fields of extractive metallurgy, the environment, production of nitric acid and ammonium nitrate, and generation of electricity.

Our most significant technologies are:

- Processes for the manufacture of dilute nitric acid, concentrated nitric acid, ammonium nitrate, reduction of nitrous oxides, compound fertilizers (NPK), as well as monoammonium and diammonium phosphates. All of the indicated processes are in operation on an industrial scale in various facilities inside and outside Spain. In general they are protected by confidentiality and restricted know-how use agreements.
- Technologies for recovery of precious metals (zinc and copper, among others) through extraction technologies using solvents and lixiviation, followed by electrolysis. Notable among the processes we have developed is the “Zincex” process for recovery of zinc from minerals rich in oxides of this metal. The “Zincex” process currently is used in one of the largest zinc refining plants in the world, located in Namibia. These processes are divided into sections, some protected by patents and others by confidentiality and restricted use agreements.

Although our business does not significantly depend on these technologies, in addition to the monetary rewards, we believe that our research and development activity gives us a strong reputation as a company with a high technological capacity.

At December 31, 2005, the value of the licenses and patents, included as an intangible fixed asset in our consolidated balance sheet amounted to €442,000, net of accumulated amortization.

Properties

We lease certain properties for administrative and operational purposes. We do not have substantial real estate holdings. In addition, we conduct business through subsidiaries and business offices outside Spain and work centers located at project sites, to which we have access through lease agreements.

Employees

Our payroll comprises permanent and temporary workers. We also hire independent professionals and subcontract other companies (generally local engineering or construction firms) to meet extraordinary human resources needs of specific projects. There is no employment relationship with independent professionals or the employees of subcontractors. Historically, most of our employees have been located in Spain. Since 2002, we have been opening satellite engineering centers in other countries and hiring engineers and other employees in those centers.

The following table sets forth our number of employees in Spain as of December 31, 2003, 2004 and 2005:

	As of December 31,		
	2003	2004	2005
Employees with university degrees	796	816	974
Employees with degrees	477	492	559
Technical employees without university degrees	359	415	436
Administrative employees	302	304	320
Other employees	164	173	199
Total	2,098	2,200	2,488

The figures in the table above only include our Spanish employees. They do not include workers provided to us by subcontractors or in our satellite engineering centers. We employ a significant number of temporary workers in Spain. During 2005, the number of our temporary workers in Spain was 960 (38.5% of our Spanish employees and 90% of all new Spanish employees hired during the 2005 fiscal year).

In addition, two of our subsidiaries operating outside Spain, Initec Chile Ltda. (Chile) and TR Engineering LLC (Oman), operate as satellite engineering centers. Their employees are not included in the table above. As of December 31, 2005, these companies employed 102 and 104 persons, respectively. Also, other companies that operate as project offices have employees that are not included in the table above. Most of these employees are hired on a temporary basis. These other companies had a total of 249 employees as of December 31, 2005. The total number of employees in our satellite engineering centers at December 31, 2005 was 455.

The reason we use a significant number of temporary employees is because most of the projects we undertake are temporary. These temporary workers generally are assigned work during the construction phase of projects. Therefore, a significant number of temporary workers have contracts for specific work or services, the duration of which coincides with the work or services they provide for the specific project to which they are assigned. On the other hand, the temporary workers not assigned to

specific projects have temporary contracts with a maximum duration of 12 months, with the possibility of a single extension for up to 12 months.

From time to time, we also enter into services agreements with a number of independent professionals who cooperate, participate or assist with respect to specific projects. We have utilized the services of 60 independent professionals during 2005.

Finally, we are increasingly utilizing the services of companies from which we subcontract workers for less value added engineering or construction services. By using subcontractors, we are able to better handle staffing on the execution of specific projects. We manage these subcontractors either from our headquarters in Spain or from one of our satellite engineering centers.

In general, our Spanish employees are represented by an enterprise committee with 23 members, all of whom are members of labor unions. However, the employees of two of our Spanish subsidiaries, Initec Plantas Industriales and Initec Infraestructuras, by reason of their origins (both companies were formed as a result of our acquisition in 2000 of various divisions of the public company Initec as a part of Initec's privatization), are each represented by separate enterprise committees.

During the five year period ended December 31, 2005, we did not have any collective labor disputes with our employees.

Legal Proceedings

We have been, and continue to be, the subject of legal proceedings and adjudications from time to time in the ordinary course of our business. However, there have not been any governmental, legal or arbitration proceedings, including pending or threatened proceedings, of which we are aware, during the past 12 months that may have, or have had in the recent past, a material adverse effect on our business, results of operations, financial position or prospects.

MANAGEMENT AND CORPORATE GOVERNANCE

Directors and Senior Management

Our directors and senior managers have extensive experience in the engineering and construction industry—both in and outside Spain. Our Board of Directors generally meets monthly and is responsible for making key decisions about our business. The day-to-day management of our business is the responsibility of the members of our senior management team. Information about the members of our Board of Directors and our senior management is included below.

Board of Directors

The members of our board of directors are as follows:

Name	Age	Title	Member of Board of Directors Since	Term Expires
José Lladó Fernández-Urrutia	72	Chairman	1960	2011
Juan Lladó Arburúa	44	Vice President	1999	2011
Juan Miguel Antoñanzas Pérez-Egea ⁽¹⁾	73	Vice President	1985	2011
Fernando Asúa Álvarez ⁽¹⁾	73	Director	1993	2011
Ignacio Marco-Gardoqui Ibáñez ⁽²⁾	58	Director	2005	2011
Francisco José Esteve Romero ⁽³⁾	44	Director	1992	2011
Antonio de Hoyos Gonzalez ⁽¹⁾	68	Director	1987	2011
Álvaro García-Argulló Lladó	78	Director	1997	2011
José Manuel Lladó Arburúa	41	Director	2006	2011
Javier Gómez Navarro ⁽¹⁾	60	Director	2006	2011
Laura Bravo Ramasco ⁽⁴⁾	38	Secretary	—	—

(1) Independent director.

(2) Appointed by Banco Bilbao Industrial, S.A. and Bilbao Vizcaya Holding, S.A.

(3) Appointed by BBVA Elcano Empresarial, S.C.R., S.A. and BBVA Elcano Empresarial II, S.C.R., S.A., pursuant to the Shareholders' Agreement (described below).

(4) Secretary—not a member of the Board of Directors.

José Lladó Fernández-Urrutia is our founder and Chairman of our Board of Directors. He has earned a doctorate in Chemical Sciences and Industrial Chemistry, and is an honorary member of the American Chemical Society and Chairman of the General Council of the Spanish Chemical Association. He has been Chairman of the General Council of Spanish Chemists, of the Advanced Council for Scientific Research, and of the National Commission for Technological Research. He was the ambassador of Spain to the United States (1978-1982) and Minister of Commerce and Minister of Transport and Communications (1976-1978). He is the founder of the Foundation for the Support of Culture, of the Free Association of University Graduates, of which he is Vice President, and he is Vice President of the Circle of Entrepreneurs. Since 1991 he has chaired the judges for the arts for the Príncipe de Asturias Prize. From its creation until 1994 he chaired the Royal Sponsors of the Queen Sofía Art Centre of the National Museum. He is Chairman of the Modern Art Collection Foundation. Currently he is the Chairman of the Xavier Zubiri Foundation, and Chairman of the Sponsors of the Universidad Pontificia de Salamanca. He holds the Gran Cruz del Mérito Civil, the Grant of the French Legion of Honour, and the Gran Cruz de Carlos III, among other awards. The Gold Seal of the Madrid Association of Chemists and the Gold Medal of ANQUE (the National Association of Spanish Chemists).

Juan Lladó Arburúa holds an Economics degree from Georgetown University (Washington, DC) and Master of Business Administration from the University of Texas at Austin (Texas, United States of America). He is Chairman of the Spain-China Foundation. He was the Treasurer and Capital Markets Director of Citibank (1988-1997) and Treasurer of Argentaria, S.A. (1997-1998). He has been our Vice Chairman of the Board of Directors and General Manager since November 18, 1999.

Fernando Asúa Álvarez has economics and computer degrees from the Universidad Complutense de Madrid and business administration and mathematics degrees from the University of California at Los Angeles (California, United States of America). His professional experience includes a long career with IBM and IBM España from 1959 to 1991. He was General Manager for South America and later Europe, the Managing Director of IBM España and a director of IBM World Trade Corp. He also has been First Vice President of the Banco Santander group since 2004. He joined the Board of Directors in September 1993.

Juan Miguel Antoñanzas Pérez-Egea holds a doctorate in industrial engineering (with the national prize upon graduation). He worked with Barreiros-Chrysler for 10 years and at the end of that period was the General Manager for Manufacturing and Assembly. He also worked for five years with ITT and held positions as the Director of Operations for Spain, the Managing Director of Marconi Española and a vice president of ITT Europe. He was the Planning Director and later the President of the National Industry Institute (1973-1976). He was President of Seat (1977-1984). He worked briefly with Russel Reynolds Associates (1984) and then joined TÉCNICAS REUNIDAS as a Vice President. He was Chairman of the Board of Directors of the Uralita group (1998-2002). He holds the Gran Cruz del Mérito Civil and the Gran Cruz del Estado de Mauritania, among other decorations. He joined the Board of Directors of the company in 1985.

Ignacio Marco-Gardoqui Ibáñez holds degrees in economics and law from the Universidad de Deusto (Bilbao). He was a professor with the Universidad Comercial de Deusto, teaching courses regarding foreign trade and the European Union (1985-2000), won the National Social Security Prize—Marvía Foundation (1974) was Consul of Sweden in Bilbao (1990-1998), and is a member of the Board of Directors of the Basque Entrepreneurs Circle and a member of the Royal Basque Society of Friends of the Country. Currently he is Executive Director of Morgan Stanley, with responsibility for relationships with large individual and institutional clients. He joined the Board of Directors of the company in 2005.

Francisco José Esteve Romero holds an economics degree from the Universidad Complutense de Madrid, a Master of Business Administration degree from the Business Institute and a General Management Program qualification from IESE. He was an assistant manager for analysis with Safei (1986-1988), the manager for analysis and portfolio management of BEX Gestión (1988-1989), and assistant general manager for analysis with Argentaria Bolsa, S.V.B. (1989-1995), an assistant to the managing director and director of corporate finance for Banco de Negocios Argentaria (1995-1998) and an assistant general manager of BBVA for advice regarding mergers and acquisitions in the industrial and real estate group (1999-2002). Since 2003 he has been the director of business projects, banking and investment with BBVA. He joined the Board of Directors of the company in December 1992.

Antonio de Hoyos González is a law graduate. He worked as a State Attorney in Spain. While working as a State Attorney he was General Secretary of Enagás, of the National Hydrocarbons Institute, of Banco Hispano Americano and of Banco Central Hispano. He also was General Manager of Campsa and of Banco Santander Central Hispano. He joined the Board of Directors of the company in 1987.

Álvaro García-Agulló Lladó holds a doctorate in road, canal and port engineering. He was the construction manager for the Rota airport (1955-1956) and the delegated engineer for the Huarte construction firm in Catalonia (1957-1961). In 1962 he joined the company as a director and general manager, which position he held until 1996. Since 1997 he has been a director of the company.

José Manuel Lladó Arburúa studied finance and international business at Georgetown University (Washington, D.C., USA) and has an MBA from the University of Chicago. He was the director of the corporate finance division of Citibank, N.A. (1988-1999), director of Chase Manhattan Bank with responsibility for global market sales in Spain (1990-2001) and subdirector general of Banesto, with responsibility for the international and treasury areas (2001-2004). In 2004, Mr. Lladó Arburúa founded Summa Financial Services. He joined us in May 2006.

Javier Gómez Navarro is an industrial engineer, specializing in chemical engineering. He has held management positions in a variety of companies and organizations, such as Editorial Tania (1979-1983), la Feria Internacional del Turismo (1980-1983), and Viajes Marsans (1983-1985). Later, he was named Secretary of State for Sport (1987-1993) and Minister of Commerce and Tourism (1993-1996). Following that, he was president of MBD Gestión y Desarrollo de Negocios, S.L. and he is currently president of Aldeasa, S.A. and president of the Consejo Superior de Cámaras Oficiales de Comercio. He joined us in May 2006.

Senior Management

The members of our senior management are as follows:

Name	Age	Title	Member of Senior Management Since
José Lladó Fernández-Urrutia	72	Executive Chairman	1960
Juan Lladó Arburúa	44	Vice Chairman and General Manager	1998
Miguel Paradinas Márquez	40	Group Commercial Manager	1998
Enrique Alsina Massana	62	General Manager of Corporate Development	1968
Arthur W. Crossley Sanz	40	Business Development Manager of Initec Plantas Industriales, S.A.	2003
José Luis Gutiérrez Rexach	57	General Manager of Initec Plantas Industriales, S.A.	2001
Adolfo Martínez Virto	59	Manager of Energy Division	1998
José Javier Pisa Benito	42	Manager of the Energy Efficiency and Renewable Energy Division	1995
José Antonio Iglesias Villar	56	General Manager of Initec Plantas Industriales, S.A.	2001
Francisco Berenguel Felices	50	Manager for Infrastructure and the Environment; General Manager of Initec Infraestructuras, S.A.	2000
Gustavo Díaz Nogueira	54	Manager of the Research and Development Division	1991
Gerardo Sainz Fernández	62	Operations Manager	2005
Tomás Arrieta Carrillo	49	Manager of Planning and Resources	2005
Pedro A. Sainz Romero	57	Manager of International Turnkey Projects	2005
José Herrero García	53	Manager of Domestic Market Operations	2005
Pablo Andrés Sáez	38	Project Manager	2003
Javier de los Santos Respaldiza	39	Project Manager	2002
Fernando Blanco Fernández	53	Project Manager	1997
Felipe Revenga López	40	Project Manager	2005
Martín Sicilia Pardos	39	Manager of the Construction Division	2000
Carlos Martín Burillo	47	General Counsel	2003
Emilio Gómez Acebedo	40	General Counsel	1998

Miguel Paradinas Márquez is a mining engineer. He joined the company in 1994. Currently, he is the head of our Commercial Division. Prior to joining the company, Mr. Paradinas' career was in the power engineering sector. He worked as an engineer for CGS, Cía Gral de Sondeos, Schlumberger, TR-Technical, Alabe, and Unión Fenosa Ingeniería.

Enrique Alsina Massana is an industrial engineer. He joined the company in 1968. Currently he is the head of the General Corporate Development Office. Prior to joining us, he was an industrial and chemical engineer working with, among others, Shell Argentina, Esso Petróleos Argentinos and Ruhrgas, AG.

Arthur W. Crossley Sanz is an industrial engineering graduate (in the electricity sector). He joined the company in 2003. Currently, he is the head of the Marketing Office of Initec Plantas Industriales S.A.U. Prior to joining the company, Mr. Crossley's professional career was in the engineering and construction field. He worked, inter alia, as a project manager for Foster Wheeler Iberia.

José Luis Gutiérrez Rexach is a chemical sciences graduate. He joined the company in 2001. Currently, he is the head of INITEC Plantas Industriales and is responsible for our upstream and natural gas business. Prior to joining us, he worked for Repsol-YPF and Foster Wheeler.

Adolfo Martínez Virto is a chemical sciences graduate. He joined the company in June 1974. Currently he is responsible for managing the Electricity Generation Division. Previously his professional career was in the services sector, with Giralt, S.A., for whom he worked as marketing manager.

José Javier Pisa Benito holds a doctorate in industrial engineering. He joined the company in 1999. Currently he is the head of the Energy Efficiency and Renewable Energy Division. Prior to joining the company, Mr. Pisa's professional career was in the electricity sector. He worked as technology manager for Elcogas, S.A., a company in which Endesa and Electricité de France, among others, hold interests.

José Antonio Iglesias Villar is a technical chemical engineer. He joined us in August 1974. Currently he is responsible for our Efficiency and Renewable Energy division. Prior to joining the company, Mr. Iglesias's professional career was with Repsol Química, S.A. where he worked as a production engineer.

Francisco Berenguel Felices is a roads, canals and ports engineer with a degree from the Advanced Technical Engineering School for Roads, Canals and Ports in Madrid. He joined Técnicas Reunidas in June 1992. Currently he is Managing Director for infrastructure and the environment, responsible for all of our business in that area. He is also the Managing Director of Initec Infraestructuras, S.A. He is also the Chairman of Reciclaquilar, S.A. as our representative and Vice President and Managing Director of Teleférico de Sierra Nevada, S.A.. Prior to joining the company, Mr. Berenguel's career was in the infrastructure and environmental sector. Until 1992 he worked with Empresa Nacional de Ingeniería y Tecnología, S.A., later called Initec Tecnología.

Gustavo Díaz Nogueira has a masters degree in chemical sciences. He joined us in 1976 and currently is the manager of our research and development division. Prior to the formation of our company, Mr Díaz led research and development projects for Spanish and international companies and for local governments.

Gerardo Sáiz Fernández holds a degree in advanced industrial engineering. He first joined the company in 1968, and thereafter in 1997. Currently he is the head of the Operations Office. Prior to joining the company, Mr. Sáiz Fernández's professional career was in the engineering field. He worked as a project manager, industrial plant manager and industrial division manager for Initec Plantas Industriales, S.A. and for us.

Tomas Arrieta Carrillo holds a degree in business administration. He joined the company in 1981. Currently, he is the Planning and Resources Manager.

Pedro A. Sainz Romero is an industrial engineer. He joined the company in 1974. Currently, he is the head of international turnkey projects.

José Herrero García holds a degree in industrial engineering (ICAI). He joined the company in 1994. Currently, he is the head of the Domestic Market Operations Office (Industrial Division). Prior to joining us, Mr. Herrero's professional career was in the engineering, construction and industrial sectors, founder and manager of Idetsa, S.A., engineer for Sener, S.A., assembly supervisor for Tecrosa and maintenance technician for Valvo.

Pablo Andrés Sáez holds a degree in advanced mining engineering. He joined the company in 1996/2003. Currently he is the head of the projects office. Prior to joining the company, Mr. Andrés' professional career was in the energy and infrastructure sector. He also worked on offshore facilities as an engineering manager and project manager, for Ciecsa Gas and Dragados Offshore.

Javier de los Santos Respaldiza holds a degree in industrial engineering. He joined the company in 1995. Currently he is the head of the Projects Office. Prior to joining the company, Mr. de los Santos Respaldiza's professional career was in the chemical industry. He worked as a marketing technician for Soproquímica (Rhone Poulenc).

Fernando Blanco Fernández holds a degree in chemical sciences. He joined the company in 1975. Currently he is the head of the Rabigh Project Office in Saudi Arabia. He has spent his entire professional career with Técnicas Reunidas.

Felipe Revenga López has an industrial engineering degree (with a specialty in chemistry) from ETS de Ingenieros Industriales de Madrid (ETSIM). He joined the company in 2005. Currently, he is the Group Project Manager. Prior to joining the company, Mr. Revenga's professional career was in the areas of chemical plants, petrochemicals, refining, and energy. He worked as Operations Manager for Fluor and Project Manager for General Electric, Initec and Foster Wheeler Iberia.

Martín Sicilia Pardos holds an advanced industrial engineering degree. He joined the company in 1997. Currently he is the head of project development in the construction and startup area. Prior to joining the company, Mr. Sicilia's professional career was in the mechanical assembly contracting sector. He worked as Regional Manager for Montajes Nervisón, S.A.

Carlos Martín Burillo is a lawyer and a member of the Madrid Bar Association. He joined the company in March 2003. Currently he is the General Secretary and General Counsel of Initec Plantas Industriales. He is also a member of our legal department. Prior to joining us, Mr. Martín Burillo's professional career was in the engineering and construction sector, in which he worked as General Secretary and General Counsel of Foster Wheeler Iberia, S.A. and as the legal adviser to the Risk Management Committee of the Foster Wheeler Group on the corporate level in the United States.

Emilio Gómez Acevedo is a lawyer. He joined the company in 1998. Currently he is the head of the legal department. Prior to joining the company, Mr. Gómez Acevedo's professional career was in the civil and military electronics, telecommunications and computer sector. He worked as a legal adviser to the Indra Group.

Executive Compensation

The members of our Board of Directors received an aggregate compensation for attending Board meetings of €292,966 and €288,486 during the years ended December 31, 2005 and 2004, respectively. In addition, the two members of our Board of Directors who are also members of our senior management received salaries in the aggregate of €459,594 and €394,082 during the years ended December 31, 2005 and 2004, respectively. Furthermore, one member of the board received

compensation pursuant to an advisory services agreement of €76,822 and €72,120 during the years ended December 31, 2005 and 2004, respectively.

Audit Committee

We held a general shareholders' meeting on May 10, 2006, in contemplation of the listing of our shares for trading on the Spanish Stock Exchanges, and in order to adapt our articles and bylaws to the legal requirements applicable to listed companies including, among others, the rules regarding audit committees. During the meeting, our shareholders approved a restated text of our articles and bylaws. Article 29 establishes the obligation to create an Audit Committee with authority to gather information, supervise, advise and propose regarding the matters within its competence contemplated in the referenced article. For its part, the board of directors at its meeting on May 10, 2006 resolved to establish the Audit Committee. Therefore, Article 29 of the Articles and Bylaws and Article 13 of the Board of Directors Regulations govern the composition, authority and operating rules of the Audit Committee.

Composition of the Audit Committee

The Articles and Bylaws and the Board of Directors Regulations set forth that the Audit Committee is to comprise three to five directors, the majority of whom are not to be executive directors. The Chairman of the Audit Committee is to be elected from among the non-executive directors. The Chairman must be replaced every four years. He may be re-elected after expiration of one year after ceasing to be the Chairman.

The composition of the Audit Committee is as indicated in the following table:

<u>Name</u>	<u>Position</u>	<u>Character of Position</u>
Juan Miguel Antoñanzas Pérez-Egea	President	Independent
Francisco José Esteve Romero	Member	Non-independent
Antonio de Hoyos González	Member	Independent
Alvaro García-Agulló Lladó	Member	Non-independent

Audit Committee Operating Rules

The Audit Committee is generally required to meet on a quarterly basis, to review the periodic financial information that is to be sent to the stock exchange authorities, as well as the information the Board of Directors is to approve and include in the annual public documentation. It also meets at the request of any of its members and when called by its Chairman. The Chairman is to call the meeting whenever the Board of Directors or its Chairman requests the issuance of a report or adoption of proposals and, in any event, whenever it is appropriate to the proper exercise of its authority.

The Audit Committee prepares an annual report regarding its activities. If the committee deems it to be appropriate, the report is to include proposals for improvement of the company's governance. The Board of Directors Regulations specify that the report is to highlight the principal incidents, if any, that have arisen with respect to matters within its competence. The report of the Audit Committee is to be attached to the annual report regarding corporate governance, and made available to the company's shareholders and investors through its web page.

When so requested by the committee, the members of the executive team and the employees of the company are required to attend meetings of the Audit Committee, cooperate with it and give it access to the information available to them. The committee may also require the company's auditors of accounts to attend its meetings. In addition, the Audit Committee may seek the advice of outside experts when it considers it to be necessary for proper performance of its duties.

Functions of the Audit Committee

The Audit Committee will exercise the following basic functions, as well as such other functions as may be delegated to it by the Board of Directors from time to time:

- Reporting to the general meeting of shareholders regarding such matters within its competence as may be posed to it by the shareholders.
- Proposing to the Board of Directors, for submission to the General Shareholders Meeting, the appointment of the external auditors of accounts referred to in Article 204 of the Corporations Law, as well as the conditions for hiring them, the scope of their professional assignment and, if applicable, revocation or non-renewal of the appointment.
- Supervising the internal audit systems; assuring their independence and effectiveness;
- Reviewing the accounts of the company, and seeing to compliance with legal requirements and proper application of accounting principles, for that purpose having the direct cooperation of the external and internal auditors.
- Being apprised of and supervising the process of preparation and integrity of the financial information regarding the company and, if applicable, the group, reviewing compliance with regulatory requirements and proper application of accounting principles; being apprised of and supervising the company's internal control systems, verifying the appropriateness and integrity thereof; and reviewing the appointment or replacement of those heading those functions.
- Periodically reviewing the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed.
- Maintaining relationships with the external auditors to receive information regarding such matters as may compromise their independence and that of anyone else involved in the process of auditing accounts, and such other communications as may be contemplated in the legislation regarding auditing of accounts and technical standards regarding auditing.
- Supervising performance of the auditing agreement, seeing to it that the opinion regarding the annual accounts and the principal contents of the audit report are drafted clearly and accurately, as well as evaluating the results of each audit.
- Reviewing the periodic financial information to be provided by the board to the markets and the supervising bodies, assuring itself that the interim accounts are prepared based on the same accounting criteria as the annual accounts.
- Examining compliance with the Internal Code of Conduct, the Board of Directors Regulations and, in general, the company's governance rules, and making the proposals necessary for improvement.
- Reporting to the Board of Directors, prior to the adoption by it of the corresponding decisions, regarding the following matters:
 - the creation or acquisition of interests in special-purpose companies or companies domiciled in tax havens, as well as any other transactions or operations of a similar nature that by reason of their complexity might impair the transparency of the group; and
 - transactions with related parties.

Nominating and Compensation Committee

Our Board of Directors, at its meeting on May 10, 2006, resolved to establish the Nominating and Compensation Committee. Article 14 of the Board of Directors Regulations regulates the composition, competence and operating rules of the Nominating and Compensation Committee.

Composition of the Nominating and Compensation Committee

The Board Regulations provide that the Nominating and Compensation Committee comprises three and five directors, the majority of which are not to be executives. The Chairman of the Nominating and Compensation Committee is to be elected from among those non-executive directors. The Chairman must be replaced every four years. He may be re-elected after the expiration of one year after ceasing to be the Chairman.

The composition of the Nominating and Compensation Committee is as set forth below:

<u>Name</u>	<u>Position</u>	<u>Character of Position</u>
Fernando Asúa Alvarez	President	Independent
José Lladó Arburúa	Member	Non-independent
Javier Gómez Navarro	Member	Independent

Operating Rules for the Nominating and Compensation Committee

The Nominating and Compensation Committee generally meets once each year. It also meets when called by its Chairman. The Chairman is to call the meeting whenever the Board of Directors or its Chairman requests the issuance of a report or adoption of proposals and, in any event, whenever it is appropriate to the proper exercise of its authority.

Functions of the Nominating and Compensation Committee

The Nominating and Compensation Committee exercises the following basic functions, in addition to those additional functions as may be delegated to it from time to time by the Board of Directors:

- Formulating and reviewing the criteria to be used for composition of the executive team of the company and its subsidiaries and selection of candidates.
- Reporting to the General Shareholders Meeting regarding proposals for appointment of directors prior to their appointment by the General Meeting or, if applicable, by the Board of Directors without the need for a General Meeting.
- Reporting to the Board of Directors regarding appointments to internal positions (Chairman, Vice Chairmen, Managing Director, if any, and Secretary and Vice Secretary, if any) of the Board of Directors.
- Advising the Board of Directors of proposals for appointment of executive officers so the board can appoint them.
- Analyzing, formulating and periodically reviewing proposals of policies regarding the hiring, removal and creation of loyalty initiatives of new executive officers.
- Analyze, formulate and periodically reviewing proposals of policies regarding the remuneration of executive officers.
- Advising regarding the systems for and amount of annual compensation of directors and top executive officers, and preparing the information to be included in the annual public information regarding compensation of directors.

- Assuring transparency regarding compensation.
- Reporting regarding transactions that imply or may imply conflicts of interest.
- Reporting annually to the Board of Directors regarding the performance of executives and directors.

Compliance with Corporate Governance Standards

In February 1998, a committee of experts chaired by Mr. Manuel Olivencia issued, at the request of the Spanish government, a code on the good corporate governance of listed companies. The code, which was not legally binding, summarised what the Olivencia Committee thought to be the rules of best practice in terms of the management of listed companies, including the board composition. More recently, in January 2003, the so-called Olivencia report was reviewed and brought up to date by a new committee of experts chaired on this occasion by Mr. Enrique de Aldama. Although the Aldama report also was not legally binding the Spanish government incorporated some of those rules on corporate governance into the Capital Markets Act 1988 and thereafter undertook a reform of the 1988 Act and the Public Companies Act 1989 through the 2002 Act and the Transparency Act.

The 2002 Act and the Transparency Act call for the adoption by listed companies of a variety of measures in the field of corporate governance. These measures include, *inter alia*, the following:

- (1) *Regulations for the conduct of shareholder's meetings.* The shareholders of companies listed on the Spanish stock exchanges must approve a regulation for the conduct of shareholders' meetings complementing the provisions of their applicable corporate legislation, and the company's articles of association regarding the conduct of General Shareholders' Meetings. Once approved, the regulations for the conduct of shareholders' meetings must be notified by the company to the Spanish National Securities Market Commission and filed for registration with the commercial registry or equivalent body.
- (2) *Internal regulations of the board of directors.* The boards of directors of companies listed on the Spanish stock exchanges must approve internal regulations of the board of directors regulating the composition and internal committees of the board, the procedures at the meetings of the board and the duties of directors. These regulations must be notified by the company to the Spanish National Securities Market Commission and filed for registration with the commercial registry or equivalent body. In addition, the directors must brief the shareholders in general meeting about the internal regulations of the board approved and any subsequent amendment thereof.
- (3) *Audit committee.* All issuers (be they Spanish or foreign) of equity or debt securities admitted to listing on official secondary securities markets in Spain are required to create and maintain an Audit Committee within the Board of Directors formed by directors of which a majority must qualify as non-executive directors and to be chaired by one of such non-executive directors. The law requires that the Audit Committee be regulated by the articles of association of the relevant issuer.
- (4) *Annual report on corporate governance.* The board of directors must prepare an annual report on corporate governance issues and practices in a form approved by the CMNV, discussing among other things the ownership and management structures of the company and the degree of compliance with the recommendations in the field of corporate governance. This report must be prepared and made available to shareholders and the CNMV by no later than the date of publication of the notice of the Annual General Meeting at which the annual accounts to which the report on corporate governance relates will be considered.

- (5) *Corporate web site.* Companies listed on the Spanish Stock Exchanges are required to set up and maintain fully updated a corporate web site where all information which may be of interest to shareholders must be made available.

On May 10, 2006, our Board of Directors Board of Directors adopted our capital markets Code of Conduct (*Reglamento Interno de Conducta*) (the “**Internal Code of Conduct**”). The Internal Code of Conduct regulates our directors’ and management’s conduct with regard to the treatment, use and disclosure of our material information. The Internal Code of Conduct applies to, among other persons, all members of the Board of Directors, senior management and employees who have access to material non-public information and to our external advisors when they handle such material non-public information.

The Internal Code of Conduct, among other things:

- establishes the restrictions and conditions for the purchase or sale of securities or other financial instruments of the Company by persons subject to the Internal Code of Conduct and those who possess material non-public information;
- provides that persons subject to the Internal Code of Conduct shall not engage in market manipulation with respect to securities or other financial instruments of the Company;
- provides that the Company shall not engage in open market purchases with a view to manipulating the market price of securities or other financial instruments of the Company or favoring any particular shareholder(s); and
- provides that persons who have a conflict of interest shall act in good faith and with loyalty towards the Company and its shareholders and without regard to such person’s individual interests. Accordingly, such persons shall (i) not act in their own interest at the expense of the Company or in the interest of particular shareholders at the expense of other shareholders, (ii) not participate in decisions that may affect other persons or entities with whom such person has a conflict of interest and (iii) inform the Company’s Legal Director of possible conflicts of interest.

Following the adoption of our Internal Code of Conduct, we believe that we will substantially comply with the recommendations of both the Aldama Report and the Olivencia Code. Our corporate practices will vary from these recommendations in the following ways: (i) we are required to have a board meeting at least once every two months, instead of once a month; (ii) our bylaws do not provide for an age limit for directors; (iii) we do not yet make available all financial information that could be relevant for shareholders, investors and the securities markets in general on our website, although we plan to provide such information on our website upon the listing of our shares on the Spanish Stock Exchanges.

In addition, in May 2006, the CNMV approved the Unified Code of Good Corporate Governance (the “**Unified Code**”), the objective of which is to harmonize and update the recommendations contained in the Olivencia and Aldama reports with respect to corporate governance practices for listed companies. We believe that a substantial part of the new recommendations have been taken into account when adopting our Internal Code of Conduct. We plan to perform a detailed analysis of the Unified Code in order to amend our Internal Code of Conduct, as appropriate, in order to conform to the recommendations in the Unified Code to the extent appropriate.

PRINCIPAL AND SELLING SHAREHOLDERS

The Company's shareholders at the date of this offering memorandum, and the percentages of their direct participations in capital of the company, are as follows:

	Shares held as of the date of this offering memorandum		Shares offered in the global offering	Shares held after the global offering but before any exercise of the over-allotment option		Shares offered in the over-allotment option	Shares held after the global offering and assuming full exercise of the over-allotment option	
	Shares	% ⁽¹⁾	Shares	Shares	%	Shares	Shares	%
Araltec, S.L. ⁽²⁾	27,028,500	48.35%	4,602,114	22,426,386	40.12%	692,826	21,733,560	38.88%
Aragonesas Promoción de Obras y Construcciones, S.L. ⁽³⁾	6,443,124	11.53%	3,161,232	3,281,892	5.87%	475,908	2,805,984	5.02%
Banco Industrial de Bilbao, S.A. ⁽⁴⁾	7,446,240	13.32%	4,103,231	3,343,009	5.98%	410,323	2,932,686	5.25%
Bilbao Vizcaya Holding, S.A. ⁽⁵⁾	6,746,040	12.07%	3,717,387	3,028,653	5.42%	371,739	2,656,914	4.75%
BBVA Elcano Empresarial, S.C.R., S.A. ⁽⁶⁾	2,124,048	3.80%	—	2,124,048	3.80%	—	2,124,048	3.80%
BBVA Elcano Empresarial II, S.C.R., S.A. ⁽⁷⁾	2,124,048	3.80%	—	2,124,048	3.80%	—	2,124,048	3.80%
José Lladó Fernández-Urrutia	60,000	0.11%	—	60,000	0.11%	—	60,000	0.11%
Children of José Lladó Fernández-Urrutia ⁽⁸⁾	3,924,000	7.02%	3,924,000	—	—	—	—	—
Total	55,896,000	100.00%	19,507,964	36,388,036	65.10%	1,950,796	34,437,240	61.61%

(1) Calculated using the percentage directly held.

(2) The majority shareholder of Araltec, S.L. (holding 99.995%) is José Lladó Fernández-Urrutia.

(3) The only shareholder of Aragonesas Promoción de Obras y Construcciones, S.L. is Tejure, S.L. In turn, the majority shareholder of Tejure, S.L. (holding 75.73%) is José Lladó Fernández-Urrutia. The remaining 24.27% belongs to his children.

(4) Banco Industrial de Bilbao, S.A. is owned and managed by Banco Bilbao Vizcaya Argentaria, S.A.

(5) Banco Vizcaya Holding, S.A. is owned and managed by Banco Bilbao Vizcaya Argentaria, S.A.

(6) BBVA Elcano Empresarial, S.C.R., S.A. is owned and managed by Banco Bilbao Vizcaya Argentaria, S.A.

(7) BBVA Elcano Empresarial II, S.C.R., S.A. is owned and managed by Banco Bilbao Vizcaya Argentaria, S.A.

(8) Marta Lladó Arburúa, María Lladó Arburúa, Pilar Lladó Arburúa, José Manuel Lladó Arburúa and Juan Lladó Arburúa hold 784,800 shares in the company each.

Control of the Company

The Company is controlled directly (or indirectly through companies he controls and through family affiliations) by José Lladó Fernández-Urrutia, who at the date of this offering memorandum is the owner (directly and indirectly) of 60.0% (and together with his children 67.0%) of the capital of the Company and is Chairman of the Board of Directors. After completion of the offer, the Company will continue to be controlled by him or his family. He and his family will have an interest (direct or indirect) of at least 44.0% of its capital assuming that the over-allotment option is fully exercised, and 46.1% of the share capital if the over-allotment option is not exercised.

In addition, as a result of the voting agreements described below entered into by BBVA Elcano Empresarial, S.C.R., S.A. and BBVA Elcano Empresarial II, S.C.R., S.A., once the offering is completed, José Lladó Fernández-Urrutia will control a total of 51.6% of the voting rights in the Company, assuming that the over-allotment option is fully exercised and 53.7% of the voting rights if the over-allotment option is not exercised. As a result, José Lladó Fernández-Urrutia will retain significant shareholdings in the Company.

Our Internal Code of Conduct regulates conflicts of interests and establishes a series of limitations on the actions of persons affected by conflicts of interest. It provides that the interests of the company must prevail over the individual interests of directors and others subject to the Internal Code of Conduct. It establishes a series of obligations of directors other subject to the Internal Code of Conduct to the Company, such as loyalty, diligence and confidentiality obligations. Also, the involvement of directors and others subject to the Internal Code of Conduct with company securities is regulated.

There is no limitation whatsoever on the maximum number of company shares that may be acquired by a single shareholder. However, in our judgment, the foregoing contribute to limiting the possibility of abuse by José Lladó Fernández-Urrutia of his controlling position in our capital.

Shareholders' Agreement

In connection with the agreements reached in October 2005 relating to the sale of shares by BSCH as described in "Related Party Transactions", Araltec, S.L. (a company controlled by José Lladó Fernández-Urrutia) acquired 38% of our share capital. At the same time, Araltec, S.L. agreed with the BBVA Group to offer shares at the same price to the BBVA Group at a later date.

In accordance with the agreement with the BBVA Group described in the preceding paragraph, Aragonesas Promoción de Obras y Construcción, S.L. (a company controlled by José Lladó Fernández-Urrutia) entered into a contract on May 23, 2006 to sell shares representing 7.6% of the Company's share capital to companies controlled by the BBVA Group (BBVA Elcano Empresarial, S.C.R., S.A. and BBVA Elcano Empresarial II, S.C.R., S.A.). See "Related Party Transactions". In connection with this sale, the parties also entered into a shareholders' agreement on that date. The shareholders' agreement provides for the following:

- Voting agreement with respect to (i) the shares held by the companies controlled by José Lladó Fernández-Urrutia (Araltec S.L. and Aragonesas Promoción de Obras y Construcciones, S.L.) once the offering contemplated hereby is completed (representing 44% of our share capital, assuming full exercise of the over-allotment option), and (ii) the shares held by BBVA Elcano Empresarial, S.C.R., S.A. and BBVA Elcano Empresarial II, S.C.R., S.A. (representing 7.6% of our share capital), in order to ensure a voting majority in favor of the companies controlled by José Lladó Fernández-Urrutia.

The voting agreement will provide that voting will be governed by the majority rule, so that for as long as the number of shares held by companies controlled by José Lladó Fernández-Urrutia exceed the number of shares held by BBVA Elcano Empresarial, S.C.R., S.A. and BBVA Elcano Empresarial II, S.C.R., José Lladó Fernández-Urrutia will have the power to determine how all such companies vote. The voting agreement will take effect upon completion of the offering, but will no longer be in effect if the shares are not admitted to trading as contemplated herein.

- Undertaking by BBVA Elcano Empresarial, S.C.R., S.A. and BBVA Elcano Empresarial II, S.C.R., S.A. to retain their shareholding in the Company for a period of approximately nine years. A timetable has been established for the progressive and optional exclusion of shares subject to the voting and share retention arrangements from 2010 until 2015, together with a pre-emption right in favor of José Lladó Fernández-Urrutia over these shares once the voting and share retention obligations have been excluded. This undertaking will take effect upon completion of the offering, but will no longer be in effect if the shares are not admitted to trading as contemplated herein.
- In the event that the companies controlled by José Lladó Fernández-Urrutia ceases to control at least 35% of the voting rights corresponding to the Company's share capital

(excluding those that are the subject of pooling by BBVA Elcano Empresarial, S.C.R., S.A. and BBVA Elcano Empresarial II, S.C.R., S.A.), the parties have agreed to certain rules in relation to the right of BBVA Elcano Empresarial, S.C.R., S.A. and BBVA Elcano Empresarial II, S.C.R., S.A. to the early exclusion of the pooling of part of their shares.

- For as long as the shares of the Company held by BBVA Elcano Empresarial, S.C.R., S.A. and BBVA Elcano Empresarial II, S.C.R., S.A. together represent more than 5% of the Company's share capital, they shall have the right to appoint a member of the Company's Board of Directors.

For the purposes of complying with Spanish securities law requirements, the signatories to the agreement have notified the Company and the CNMV of the provisions of the agreement described above that may be classified as a shareholders' agreement and such provisions are also deposited in the Madrid Companies Registry where it is available to the general public. The description of this agreement is a summary and is qualified in full by reference to the complete, publicly available document.

RELATED PARTY TRANSACTIONS

Information regarding transactions with related parties (defined for this purpose by the rules adopted under Regulation (EC) no. 1606/2002) are set out below. Transactions with related parties during the past three fiscal years have been through ordinary-course, arm's-length bases.

Transactions Undertaken with Our Principal Shareholders

Except for the transaction described below and the transactions described in the following section, during the past three fiscal years up to the date of this offering memorandum, there have been no transactions resulting in a transfer of resources or obligations among the company and/or its group and its shareholders.

Transactions undertaken with the Banco Bilbao Vizcaya Argentaria group (BBVA Group):

In May 2006, further to the sale of shares by BSCH described below, Aragonesas Promoción de Obras y Construcciones, S.L., a company controlled by José Lladó Fernández-Urrutia, sold 4,248,096 shares (after giving effect to the share split) representing 7.6% of the outstanding capital of the company to various entities related to the BBVA Group. The price per share was €4.47 (calculated after giving effect to the share split). In connection with this transaction, a voting agreement was entered into. See "Principal and Selling Shareholders—Control of the Company".

We also enter into banking arrangements with BBVA Group. The following table sets forth transactions that we have entered into with the BBVA Group during the past three fiscal years:

	2005	2004	2003
	(euro in thousands)		
Lines of credit ⁽¹⁾	20,045	12,020	12,020
Borrowings	10,244	—	—
Guarantees granted	163,871	85,399	49,273
Letter of credit lines ⁽²⁾	6,667	—	—

- (1) Includes one third of a US \$30 million line of credit granted to a company in which the Group holds a 33% interest, destined to construction of a plant abroad.
- (2) Includes one third of a US \$20 million line of letters of credit granted to a company in which the Group holds a 33% interest, destined to construction of a plant abroad.

Also, we have opened many checking accounts necessary for the conduct of our ordinary business, and manage a part of our treasury funds by acquiring financial assets through the BBVA Group.

Transactions undertaken with the Banco Santander Central Hispano group (BSCH Group):

On October 5, 2005, Capital Riesgo Global, S.C.R., S.A., a member of the BSCH Group, sold all of the shares it held in the Company (21,252,120 shares (after giving effect to the share split), or 38% of the ownership of the Company) to Araltec, S.L. The shares were sold for a total consideration of €4.47 per share (after giving effect to the share split), a small amount of which has already been paid and the remainder of which Araltec, S.L. is required to pay in three equal instalments on October 5, 2006, 2007 and 2008. As guarantee for payment for the shares, the shares that were sold were pledged by Araltec, S.L. in favor of Capital Riesgo Global S.C.R., S.A. Fifty percent of the pledge is required to be cancelled once the second payment on October 5, 2007 is made by Araltec, S.L. for the shares, and the pledge is required to be cancelled in its entirety once the purchase price has been paid. All economic and voting rights for such shares pertain to Araltec, S.L. None of these shares are being offered for sale hereby.

When the BSCH Group was a shareholder, we engaged in transactions with the BSCH group related to its banking business. The following table sets forth transactions that we have entered into with the BSCH Group during the past three fiscal years:

	2005	2004	2003
	(euro in thousands)		
Lines of credit	48,141	34,600	27,120
Borrowings	37,054	18,633	11,489
Guarantees granted	120,025	63,138	71,202
Letter of credit lines	—	—	—

Also, we have opened many checking accounts necessary for the conduct of our ordinary business, and manage a part of its treasury funds by acquiring financial assets through the BSCH Group.

Purchase and Sale of Castellana 60

On December 19, 2003, we sold to a shareholder, Araltec, S.L., the building located at Paseo de la Castellana, 60 in Madrid. By virtue of the transfer of the real estate, which was made free of encumbrances for a price of €20,018,471 (plus VAT), the Araltec, S.L. assumed all of our rights and obligations with respect to the real estate, as well as the lease agreements for office premises and garage spaces therein.

Purchase and Sale of Laya Castilla

On March 30, 2006, Laya, S.A. sold the 78,001 shares it had in Laya Castilla, S.A. to the Company, which, as a result of this transaction, acquired a 100% interest in Laya Castilla, S.A. The purchase price will be paid on May 30, 2006.

Immediately following the purchase and sale described in the previous paragraph, the Company sold 85,055 of its shares in Laya Castilla, S.A. to Aragonas Promoción de Obras y Construcciones, S.L. As a result, the Company currently holds a 25% interest in Laya Castilla, S.A. and Aragonas Promoción de Obra y Construcciones, S.L. holds a 75% interest.

Transactions with Directors and Senior Management

During the three years ended December 31, 2005, the following entities in which a member of our Board of Directors or senior management has an interest or affiliation have provided goods or services to us or have been one of our clients:

- Cepsa Group—Fernando Asúa Álvarez is a member of the board of directors of this entity, which is a client of ours. We had sales to the Cepsa Group totaling €2.5 million and €2.8 million during 2005 and 2004, respectively. In addition, we purchased goods and services from the Cepsa Group during 2005 and 2004 in amounts totaling approximately €40,000 and €30,000, respectively.
- Air Liquide, S.A.—Fernando Asúa Álvarez is a member of the board of directors of this entity, from which we purchased approximately €4,000 in goods and services in 2005.
- Tubacex Tubos Inoxidables SA—Ignacio Marco-Gardoqui Ibáñez is a member of the board of directors of this entity, from which we purchased €232,000 worth of goods and services in 2004.
- Tubos Reunidos, S.A.—Francisco José Esteve Romero is a member of the board of directors of this entity, from which we purchased €167,000 worth of goods and services in 2004.

DESCRIPTION OF THE SHARES

The following summary provides information concerning our capital stock and briefly describes certain significant provisions of our bylaws (*estatutos*) and Spanish corporate law. This summary does not purport to be complete and is qualified in its entirety by reference to our bylaws and Spanish corporate law. Copies of our bylaws are available (in Spanish only) at our registered office and on our website.

General

At the date of this offering memorandum, our issued capital consisted of €5,589,600 divided into a single series of 55,896,000 shares in book-entry form, with a nominal value of €0.10 each. All of our shares are fully paid and non-assessable. Non-residents of Spain may hold and vote shares, subject to the restrictions described under “—Restrictions on Foreign Investment”.

Dividend and Liquidation Rights

Payment of dividends is proposed by the board of directors and must be authorized by our shareholders at a general meeting. Holders of shares participate in such dividends for each year from the date agreed by a general meeting. Under certain circumstances, the board of directors may declare the payment of a dividend on account of the dividend to be authorized by the general shareholders meeting.

Spanish law requires each company to contribute at least 10% of its net income each year to a legal reserve until the balance of such reserve is equal to at least 20% of such company's issued share capital. A company's legal reserve is not available for distribution to its shareholders except upon such company's liquidation. According to Spanish law, dividends may only be paid out from the portion of profits or distributable reserves that exceed our amortizable start-up expenses, and only if the value of our net worth is not, and as a result of distribution would not be, less than our share capital plus legal reserve. In accordance with Section 947 of the Spanish Commercial Code, the right to a dividend lapses and reverts to us if it is not claimed within five years after it becomes payable.

Dividends payable by us to non-residents of Spain are subject to a Spanish withholding tax at the rate of 15%. However, residents of certain countries will be entitled to the benefits of a Double Taxation Convention. See “Material Tax Considerations to Investors—Spanish Tax Considerations—Taxation of Dividends”.

Upon our liquidation, our shareholders would be entitled to receive proportionately any assets remaining after the payment of our debts and taxes and expenses of the liquidation.

Shareholders' Meetings and Voting Rights

Pursuant to our bylaws, rules of the shareholders' meeting and Spanish corporate law, the annual general meeting of our shareholders is held during the first six months of each fiscal year on a date fixed by the board of directors. Extraordinary meetings may be called by the board of directors whenever it deems appropriate or at the request of shareholders representing at least 5% of our share capital. Notices of all shareholders' meetings are published in the Commercial Registry's Official Gazette (*Boletín Oficial del Registro Mercantil*) and in a local newspaper of wide circulation in the province where we are domiciled (currently Madrid, Spain) at least one month prior to the meeting.

Action is taken at ordinary meetings on the following matters: the approval of the management carried out by the directors of the Company during the previous fiscal year, the approval of the annual accounts from the previous fiscal year, and the allocation of the previous fiscal year's income or loss. All other matters can be considered at either an extraordinary meeting or at an ordinary meeting if the matter is within the authority of the meeting and is included on the agenda.

In general, each share entitles the holder to one vote. Under Spanish corporate law, shareholders who voluntarily aggregate their shares so that the capital stock so aggregated is equal to or greater than the result of dividing the total capital stock by the number of directors have the right to appoint a corresponding proportion of the members of the board of directors (disregarding the fractions). Shareholders who exercise this right may not vote on the appointment of other directors.

Any share may be voted by proxy. Proxies must be in writing and sent by post, or in electronic form acceptable under applicable law are valid for a single shareholders' meeting. Proxies may be given to any person whether or not a shareholder.

Only holders of at least 50 shares duly registered in the book-entry records maintained by Iberclear, and its member entities at least five days prior to the day on which a shareholders' meeting is scheduled, in the manner provided in the notice for such meeting, may attend and vote at such meeting. Holders of less than 50 shares may form a group for purposes of attending and voting attend the meeting. The representation of the group shall be conferred to one of them.

Our bylaws provide that, on the first call of an ordinary or extraordinary general shareholders' meeting, the presence in person or by proxy of shareholders representing at least 25% of our voting capital will constitute a quorum. If on the first call a quorum is not present, the meeting can be reconvened by a second call, which according to Spanish corporate law requires no quorum. However, a resolution in a shareholders' meeting to change our share capital or corporate purpose, issue bonds, merge, dissolve, spin-off assets, transform our legal form or modify our bylaws, requires on first call the presence in person or by proxy of shareholders representing at least two-thirds of our voting capital, and on second call the presence in person or by proxy of shareholders representing at least 50% of our voting capital. On second call, such resolutions may only be passed upon the vote of shareholders representing two-thirds of our capital present or represented at such meeting. The interval between the first and the second call for a shareholders' meeting must be at least 24 hours. Resolutions in all other cases are passed by a majority of the votes cast. A resolution passed in a shareholders' meeting is binding on all shareholders, unless such resolution is (i) contrary to Spanish law or the bylaws of the company or (ii) prejudicial to the interest of the company and is beneficial to one or more shareholders or third parties. In the case of resolutions contrary to Spanish law, the right to contest is extended to all shareholders, directors and interested third parties. In any other case, such right is extended to shareholders who attended the shareholders' meeting and recorded their opposition in the minutes, to shareholders who were absent and to those unlawfully prevented from casting their vote as well as to members of the board of directors. In certain circumstances (such as a modification of corporate purpose or change of the corporate form), Spanish corporate law gives dissenting or absent shareholders the right to withdraw from the company. If this right were exercised, the company would be obliged to purchase the relevant shareholding(s) at a price equal to the average market value of the shares for the last quarter.

Our bylaws do not provide for any supermajority voting requirements.

Shareholder Suits

Under Spanish corporate law, directors are liable to shareholders for illegal acts, acts that violate the bylaws and for failure to carry out their legal duties with due diligence. Shareholders need not submit these actions to arbitration.

Under Spanish law, shareholders must generally bring actions against us in the province where we are domiciled (currently Madrid, Spain).

Registration and Transfers

Our shares are in book-entry form and are indivisible. Joint holders of one share must designate a single person to exercise their shareholders' rights, but they are jointly and severally liable to us for all the obligations flowing from their status as shareholders, such as the payment of any pending capital calls. Iberclear, which manages the Spanish clearance and settlement system of the Spanish stock exchanges, maintains the central registry reflecting the number of shares held by each of its member entities (*entidades participantes*) as well as the amount of these shares held by beneficial owners. Each member entity, in turn, maintains a registry of the owners of such shares.

Transfers of shares quoted on the Spanish stock exchanges must be made through or with the participation of a member of a Spanish stock exchange. Brokerage firms, official stockbroker or dealer firms, Spanish credit entities, investment services entities authorized in other EU member states and investment services entities authorized by their relevant authorities and in compliance with the Spanish regulations are eligible to be members of the Spanish stock exchanges. See "Market Information". The transfer of shares may be subject to certain fees and expenses.

Restrictions on Foreign Investment

According to Royal Decree 664/1999 on foreign investments and subject to the restrictions described below, foreign investors may freely invest in shares of Spanish companies as well as transfer invested capital, capital gains and dividends out of Spain without limitation (subject to applicable taxes and exchange controls), and need only file a notification with the Spanish Registry of Foreign Investments maintained by the General Bureau of Commerce and Investments within the Ministry of Economy and Finance following the investment or divestiture, if any, solely for statistical, economic and administrative purposes. Where the investment or divestiture is made in shares of Spanish companies listed on any of the Spanish stock exchanges, the duty to provide notice of a foreign investment or divestiture lies with the relevant entity with whom the shares in book-entry form have been deposited or which has acted as an intermediary in connection with the investment or divestiture.

If the foreign investor is a resident of a tax haven, as defined under Spanish law (Royal Decree 1080/1991 (July 5, 1991)), notice must be provided to the Registry of Foreign Investments prior to making the investment, as well as after consummating the transaction. However, prior notification is not necessary in the following cases:

- investments in listed securities, whether or not traded on an official secondary market, as well as investments in participations in investment funds registered with the CNMV; and
- foreign shareholdings that do not exceed 50% of the capital of the Spanish company in which the investment is made.

Additional regulations to those described above apply to investments in some specific industries, including air transportation, gambling, mining, manufacturing and sales of weapons and explosives for civil use and national defense, radio, television and telecommunications. These restrictions do not apply to investments made by EU residents, other than investments by EU residents in activities relating to the Spanish defense sector or the manufacturing and sale of weapons and explosives for non-military use.

The Spanish Council of Ministers, acting on the recommendation of the Ministry of Economy and Finance, may suspend the aforementioned provisions relating to foreign investments for reasons of public policy, health or safety, either generally or in respect of investments in specified industries, in which case any proposed foreign investments falling within the scope of such a suspension would be subject to prior authorization from the Spanish government, acting on the recommendation of the Ministry of Economy and Finance.

Finally, in addition to the notices relating to significant shareholdings that must be sent to the relevant company, the CNMV and the relevant Spanish stock exchanges, as described in this section under “—Reporting Requirements”, foreign investors are required to provide said notices to the Registry of Foreign Investments.

Pre-emptive Rights and Increases of Share Capital

Pursuant to Spanish corporate law, shareholders and holders of convertible bonds have pre-emptive rights to subscribe for any new shares issued by the company and for any new bonds convertible into shares. Such pre-emptive rights may be waived by a resolution passed at a meeting of shareholders or the board of directors (when the shareholders’ meeting delegates to the board of directors the right to increase the capital stock and waive pre-emptive rights), as set out in Article 159 of the Spanish corporate law. As of the date hereof, we have no convertible bonds outstanding.

Further, the pre-emptive rights, in any event, will not be available in an increase in share capital to meet the requirements of a convertible bond issue or a merger in which shares are issued as consideration. Pre-emptive rights are transferable, may be traded on the Automated Quotation System and may be of value to existing shareholders because new shares may be offered for subscription at prices lower than prevailing market prices. Our ability to make pre-emptive rights or the economic benefit thereof available to holders in the United States or other jurisdictions may be limited by the laws of those jurisdictions. See “Risk Factors—Risks Relating to the Shares—Pre-emptive rights may be unavailable to US holders”.

Reporting Requirements

Because our shares are to be listed on the Spanish stock exchanges, agreements with respect to the acquisition or disposition thereof must be reported within seven business days of the acquisition or disposal to us, the CNMV, each of the Spanish stock exchanges and, where the person or group effecting the transaction is a non-Spanish resident, the Spanish Registry of Foreign Investments, where:

- in the case of an acquisition, the acquisition results in that person or group holding 5% (or successive multiples thereof) of our share capital; or
- in the case of a disposal, the disposal takes any existing holding of that person or group below a threshold of 5% (or successive multiples thereof) of our share capital.

Similar disclosure obligations apply to voting agreements among parties holding 5% or more in the aggregate of our share capital. Should the person or group effecting the transaction be resident in a tax haven (as defined by applicable Spanish regulations), the threshold that triggers the obligation to disclose the acquisition or disposition of our shares is reduced to 1% (and successive multiples thereof).

We will also be required to report any acquisition of treasury stock exceeding 1% of our share capital (and successive multiples thereof) to the CNMV and each of the Spanish Stock Exchanges. Any member of the board of directors must report to us, to the CNMV, and to the relevant Spanish stock exchanges, any percentage or number of shares and stock options held at the time of becoming a member of the board of directors.

Furthermore, any member of our board of directors must similarly report any acquisition or disposal of our shares, regardless of the size, as well as any acquisition, transfer or exercise of option rights over our shares and any other interest or right that enables the director to acquire or subscribe for our shares. In addition, our senior managers (defined as those persons who carry out executive functions within the company and report directly to the company’s board of directors, executive committee or chief executive officer) must also report any stock based compensation that they may receive pursuant to any of our compensation plans.

In addition, according to Royal Decree 1333/2005, of November 11, 2005 (implementing European Directive 2004/72/EC), any member of our Board of Directors and any of our senior managers or any parties related to any of them, as defined in such Royal Decree 1333/2005, must report to the CNMV any transactions carried out with respect to our shares or derivatives or other financial instruments relating to our shares within five business days of such transaction. The notification of the transaction must include particulars such as, among others, the type of transaction, the date of the transaction and the market in which the transaction was carried out, the number of shares traded and the price paid in connection with the transaction.

On July 17, 2003, the Spanish government enacted the Transparency Act (Act 26/2003), amending the Securities Market Act (Act 24/1998) (the “**Spanish Securities Market Act**”) and the Public Companies Act (Royal Decree 1564/1989). The Transparency Act requires parties to disclose certain types of shareholders’ agreements concerning the exercise of voting rights at a general shareholders’ meeting or containing restrictions or conditions on the free transferability of shares or bonds that are convertible or exchangeable into shares. If our shareholders enter into such agreements with respect to our shares, they must disclose the execution, amendment or extension of such agreements to us and the CNMV and must file such agreements with the appropriate commercial registry. Failure to comply with these disclosure obligations renders any such shareholders’ agreement unenforceable and constitutes a violation of the Spanish Securities Market Act.

Share Repurchases

Pursuant to Spanish corporate law, we may only repurchase our own shares within certain limits and in compliance with the following requirements:

- the repurchase must be authorized by the general shareholders’ meeting by a resolution establishing the maximum number of shares to be acquired, the minimum and maximum acquisition price and the duration of the authorization, which may not exceed 18 months from the date of the resolution;
- the aggregate nominal value of the shares repurchased, together with the aggregate nominal value of the shares already held by us and our subsidiaries, must not exceed 5% of our share capital;
- we must be able to set aside non-distributable reserves in an amount corresponding to the book value of the repurchased shares; and
- the shares repurchased must be fully paid.

Treasury shares do not have voting rights or economic rights (e.g., the right to receive dividends and other distributions and liquidation rights), except the right to receive bonus shares, which will accrue proportionately to all of our shareholders. Treasury shares are counted for purposes of establishing the quorum for shareholders’ meetings and majority voting requirements to pass resolutions at shareholders’ meetings.

Directive 2003/6/EC of the European Parliament and the European Council dated January 28, 2003 on insider dealing and market manipulation establishes rules in order to ensure the integrity of European Community financial markets and to enhance investor confidence in those markets. Article 8 of this Directive establishes an exemption from the market manipulation rules regarding share buy-back programs by companies listed on a stock exchange in an EU member state. European Commission Regulation No. 2273/2003, dated December 22, 2003, implemented the aforementioned Directive with regard to exemptions for buy-back programs. Article 3 of this Regulation states that in order to benefit from the exemption provided for in Article 8 of the Directive, a buy-back program must comply with certain requirements established under such Regulation and the sole purpose of the buy-back program

must be to reduce the share capital of an issuer (in value or in number of shares) or to meet obligations arising from either of the following:

- debt financial instruments exchangeable into equity instruments; or
- employee share option programs or other allocations of shares to employees of the issuer or an associated company.

Tender Offers

Pursuant to Spanish law, any person or entity (the “**bidder**”) intending to acquire for valuable consideration, in one or several transactions, shares of a company listed on a Spanish stock exchange (the “**target company**”) or any other equity securities which may include a right to subscribe for or acquire additional shares (e.g., pre-emptive rights, convertible bonds or warrants) in order to reach, together with any stake previously held, a significant shareholding in the voting stock of the target company, may not do so without launching a public tender offer.

Specifically, the bidder must launch a tender offer over an amount of shares that represents at least 10% of the share capital of the target company if:

- the bidder intends to acquire a shareholding equal to or greater than 25% but less than 50%; or
- the bidder already holds a shareholding equal to or greater than 25% but less than 50%, and intends to increase such holding by at least 6% within a period of 12 months; or
- the bidder intends to acquire a shareholding less than 25% and to appoint a number of directors of the target company which, in addition to those already appointed by the bidder, if any, represents more than a third but less than one half plus one of the directors of the target company.

The bidder must launch a tender offer over 100% of the share capital of the target company if:

- the bidder intends to acquire a shareholding equal to or greater than 50%; or
- the bidder intends to acquire a shareholding lower than 50% and to appoint a number of directors of the target company which, in addition to those already appointed by the bidder, if any, represents more than half plus one of the directors of the target company.

In addition, Spanish law also establishes additional circumstances in which the mandatory tender offer regime will apply, such as indirect acquisitions of significant shareholdings, amendments of the target company's bylaws and delisting of securities.

Directive 2004/25/EC of the European Parliament and of the Council of April 21, 2004 on takeover bids has set forth measures for the harmonization of rules on takeovers in order to establish a framework consisting of certain common principles in the European Union. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive no later than May 20, 2006. Although Spain has not yet implemented this Directive, its final transposition may imply amendments to the current Spanish rules on tender offers set out above.

MARKET INFORMATION

The Spanish securities market for equity securities consists of the four stock exchanges located in Madrid, Bilbao, Barcelona and Valencia and the Automated Quotation System, or *Mercado Continuo*. During 2005 and 2006 to date, the Automated Quotation System accounted for the majority of the total trading volume of equity securities on the Spanish stock exchanges.

Application has been made to list our shares on the Spanish stock exchanges through the Automated Quotation System.

The Automated Quotation System links the four Spanish stock exchanges, providing the securities listed on it with a uniform continuous market that eliminates certain of the differences among the local exchanges. The principal feature of the system is the computerized matching of buy and sell orders at the time of entry of the order. Each order is executed as soon as a matching order is entered, but can be modified or cancelled until executed. The activity of the market can be continuously monitored by investors and brokers. The Automated Quotation System is operated and regulated by Sociedad de Bolsas, S.A., a corporation owned by the companies that manage the stock exchanges. All trades on the Automated Quotation System must be placed through a brokerage firm, a dealer firm or a credit entity that is a member of a Spanish stock exchange.

In a pre-opening session held from 8:30 a.m. to 9:00 a.m. each trading day, an opening price is established for each security traded on the Automated Quotation System based on a real-time auction in which orders can be entered, modified or cancelled but are not executed. During this pre-opening session, the system continuously displays the price at which orders would be executed if trading were to begin. Market participants only receive information relating to the auction price (if applicable) and trading volume permitted at the current bid and offer price. If an auction price does not exist, the best bid and offer price and associated volumes are shown. The auction terminates with a random period of 30 seconds during which share allocation takes place. Until the allocation process has finished, orders cannot be entered, modified or cancelled. In exceptional circumstances (including the inclusion of new securities on the Automated Quotation System) and after giving notice to the CNMV, Sociedad de Bolsas, S.A. may establish an opening price without regard to the reference price (the previous trading day's closing price), alter the price range for permitted orders with respect to the reference price and modify the reference price. The computerized trading hours are from 9:00 a.m. to 5:30 p.m. During the trading session, the trading price of a security is permitted to vary up to a maximum so-called "static" range of the reference price, provided that the trading price for each trade of such security is not permitted to vary in excess of a maximum so-called "dynamic" range with respect to the trading price of the immediately preceding trade of the same security. If, during the trading session, there exist matching bid and ask orders over a security within the computerized system which exceed any of the above "static" and "dynamic" ranges, trading on the security is automatically suspended and a new auction is held where a new reference price is set, and the "static" and "dynamic" ranges will apply over such reference price. The "static" and "dynamic" ranges applicable to each particular security are set up and reviewed periodically by Sociedad de Bolsas, S.A. From 5:30 p.m. to 5:35 p.m. orders can be entered, modified and cancelled, but no trades can be made.

Between 5:30 p.m. and 8:00 p.m., trades may occur outside the computerized matching system without prior authorization of Sociedad de Bolsas, S.A., at a price within the range of 5% above the higher of the average price and closing price for the day and 5% below the lower of the average price and closing price for the day if there are no outstanding bids or offers, respectively, on the system matching or bettering the terms of the proposed off system transaction and, if, among other things, the trade involves more than €300,000 and more than 20% of the average daily trading volume of the stock during the preceding three months. These trades must also relate to individual orders from the same person or entity and be reported to Sociedad de Bolsas, S.A. before 8:00 p.m.

At any time trades may take place (with the prior authorization of Sociedad de Bolsas, S.A.) at any price if:

- the trade involves more than €1.5 million and more than 40% of the average daily volume of the stock during the preceding three months;
- the transaction derives from a merger or spin-off process, or from the reorganization of a group of companies;
- the transaction is executed for the purposes of settling a litigation or completing a complex group of contracts; or
- Sociedad de Bolsas, S.A. finds other justifiable cause.

Information with respect to the computerized trades between 9:00 a.m. and 5:30 p.m. is made public immediately, and information with respect to trades outside the computerized matching system is reported to Sociedad de Bolsas, S.A. by the end of the trading day and published in the *Boletín de Cotización* and in the computer system by the beginning of the next trading day.

Clearance and Settlement System

Transactions carried out on the Automated Quotation System are cleared and settled through Iberclear. Only participating entities of the system are entitled to use it, and access to become a participating entity is restricted to authorized members of the Automated Quotation System, the Bank of Spain (when an agreement, approved by the Spanish Ministry of Economy, is reached with Iberclear) and, with the approval of the CNMV, other brokers who are not members of the Spanish stock exchanges, banks, savings banks and foreign settlement and clearing systems.

Iberclear is owned by Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A., a holding company which holds a 100% interest in each of the Spanish official secondary markets and settlement systems. See “—Integration of the Spanish Official Organized Secondary Markets and Clearing and Settlement Systems into a Single Holding Company”. The clearance and settlement system and its members are responsible for maintaining records of purchases and sales under the book-entry system. Shares of listed Spanish companies are held in book-entry form. Iberclear, which manages the clearance and settlement system, maintains a registry reflecting the number of shares held by each of its member entities on its own behalf as well as the number of shares held on behalf of third parties. Each member entity, in turn, maintains a registry of the owners of such shares. Spanish law considers the legal owner of the shares to be:

- the member entity appearing in the records of Iberclear as holding the relevant shares in its own name; or
- the investor appearing in the records of the member entity as holding the shares.

Iberclear operates on the basis of the so-called “T+3 Settlement System” by which the settlement of any transactions must be made within three business days following the date on which the transaction was carried out.

Obtaining legal title to shares of a company listed on a Spanish stock exchange requires the participation of a Spanish official stockbroker, broker-dealer or other entity authorized under Spanish law to record the transfer of shares. To evidence title to shares, at the owner’s request the relevant member entity must issue a certificate of ownership. If the owner is a member entity, Iberclear is in charge of the issuance of the certificate with respect to the shares held in the member entity’s name. Spanish Law 37/1998, which implements a European Union directive, allows, in specified circumstances, for the transfer of ownership of shares of a company listed on a Spanish stock exchange without complying with one or more of the requirements described above. However, secondary legislation

required to implement this law in Spain has not been enacted as of the date of this offering memorandum.

Shares Deposited with Euroclear and Clearstream, Luxembourg

Shares deposited with depositories for Euroclear Bank, S.A./N.V. (“**Euroclear**”) and Clearstream Banking, Luxembourg (“**Clearstream**”) and credited to the respective securities clearance account of purchasers in Euroclear or Clearstream against payment to Euroclear or Clearstream will be held in accordance with the Terms and Conditions Governing Use of Euroclear and Clearstream, the operating procedures of the Euroclear System, as amended from time to time, and the Management Regulations of Clearstream and the instructions to Participants of Clearstream as amended from time to time, as applicable. Persons on whose behalf accounts at Euroclear or Clearstream are maintained and to which shares have been credited (“**investors**”) shall have the right to receive the number of shares equal to the number of shares so credited, upon compliance with the foregoing regulations and procedures of Euroclear or Clearstream.

With respect to the shares that are deposited with depositories for Euroclear or Clearstream, such shares will be initially recorded in the name of Euroclear, or one of its nominees, and in the name of Clearstream, or one of its nominees. Thereafter, investors may withdraw shares credited to their respective accounts if they wish to do so, upon payment of the applicable fees, if any, and obtaining the relevant recording in the book-entry registries kept by the members of Iberclear.

Under Spanish law, only the recorded holder of the shares according to the registry kept by Iberclear is entitled to receive dividends and other distributions and to exercise voting, pre-emptive and other rights in respect of such shares. Euroclear or its nominee and Clearstream or its nominee will be the sole recorded holders of the shares that are deposited with the depositories for Euroclear and Clearstream until such time as investors exercise their rights to withdraw such shares and cause them to obtain the recording of the investor’s ownership of the shares in the book-entry registries kept by the members of Iberclear.

Cash dividends or cash distributions, as well as stock dividends or other distributions of securities, received in respect of the shares that are deposited with the depositories for Euroclear and Clearstream will be credited to the cash accounts maintained on behalf of the investors at Euroclear and Clearstream, as the case may be, after deduction for applicable withholding taxes, in accordance with the applicable regulations and procedures of Euroclear and Clearstream. See “Taxation”.

Each of Euroclear and Clearstream will endeavor to inform investors of any significant events of which they have notice affecting the shares recorded in the name of Euroclear or its nominees and Clearstream or its nominees and requiring action to be taken by investors. Each of Euroclear and Clearstream may, at its discretion, take such action as it shall deem appropriate in order to assist investors to direct the exercise of voting rights in respect of the shares. Such actions may include (i) acceptance of instructions from investors to execute or to arrange for the execution of, proxies, powers of attorney or other similar certificates for delivery to us, or our agent; or (ii) voting of such shares by Euroclear or its nominees and Clearstream or its nominees in accordance with the instructions of investors.

If we offer or cause to be offered to Euroclear or its nominees and Clearstream or its nominees, as the recorded holders of the shares with respect to the shares, any rights to subscribe for additional shares or rights of any other nature, each of Euroclear and Clearstream will endeavor to inform investors of the terms of any such rights issue of which it has notice in accordance with the provisions of their regulations and procedures referred to above. Such rights will be exercised, or such rights may be sold and, in such event, the net proceeds will be credited to the cash account maintained on behalf of the investor with Euroclear or Clearstream.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in an underwriting agreement entered into prior to the consummation of the offering (the “**Underwriting Agreement**”), Merrill Lynch International, Banco Bilbao Vizcaya Argentaria, S.A. and JPMorgan Cazenove Limited severally agreed to procure purchasers for or, failing which, to purchase, and the selling shareholders agreed to sell to them, the percentage of shares offered in the international institutional offering set forth opposite their names in the table below. Merrill Lynch International and Banco Bilbao Vizcaya Argentaria, S.A. are the Joint Global Coordinators and Joint Bookrunners of the international institutional offering. The principal offices of Merrill Lynch International are located at Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ, United Kingdom; and the principal offices of Banco Bilbao Vizcaya Argentaria, S.A. are located at Vía de los Poblados s/n, 28033 Madrid.

<u>Name</u>	<u>Percentage of Shares offered in the Offering</u>
Merrill Lynch International	60.00%
Banco Bilbao Vizcaya Argentaria, S.A.	30.00%
JPMorgan Cazenove Limited	10.00%
Total	<u>100.00%</u>

The Managers and the underwriters for the Spanish institutional offering and the underwriters for the Spanish retail offering, collectively, propose to resell the shares initially at the offer price by way of a global offering consisting of (i) an offering to retail investors in Spain and Andorra by way of a separate Spanish language prospectus, (ii) an offering to institutional investors in Spain and Andorra in reliance on Regulation S, and (iii) an international institutional offering to (a) QIBs within the United States in reliance on Rule 144A and (b) outside the United States in reliance on Regulation S. See also “Transfer and Selling Restrictions”.

Payment for and delivery of the shares is expected to be made on or about June 23, 2006 through the book-entry facilities of Iberclear in accordance with their normal settlement procedures applicable to equity securities.

Prior to the offering there was no public market in the shares and no assurances can be given that an active trading market will develop or that the shares will trade above the offer price.

The Company, for and on behalf of the selling shareholders, will pay to the Managers a total commission for the international institutional offering of 3.5% of the gross proceeds from the international institutional offering and from the sale of additional shares pursuant to the over-allotment option. The Company, for and on behalf of the selling shareholders, will also reimburse certain costs incurred by the Managers in connection with the international institutional offering.

As is more fully set out in the Underwriting Agreement, the selling shareholders and we have agreed to indemnify the Managers against certain liabilities in connection with the offering, including liabilities under applicable securities laws. The selling shareholders and we have provided the Managers with customary representations and warranties in relation to their title of the shares. The Underwriting Agreement provides that the obligations of the Managers are subject to certain conditions precedent, including the absence of any material adverse change in our financial condition or business affairs. The Managers are entitled to terminate the Underwriting Agreement in certain circumstances on or prior to the closing of the offering. If the shares are not listed on the Spanish Stock Exchanges and quoted on the Automated Quotation System of the Spanish Stock Exchanges by July 21, 2006, the offering will terminate, the shares will be returned to the selling shareholders and the purchase price will be returned to the purchasers, together with interest.

In addition to the offer price, purchasers of the shares may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase.

Until 40 days after the commencement of the offering, an offer or sale of shares within the United States by a dealer, whether or not participating in the offering, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

In connection with the offering, each of the Managers and any of their respective affiliates acting as an investor for its own account may take up shares and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly references in this document to the shares being offered or placed should be read as including any offering or placement of such securities to the Managers and any relevant affiliate acting in such capacity. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Lock-up Agreements

Each of the Company and our existing shareholders have agreed with the Managers in the Underwriting Agreement that, during a period commencing on the date of the Underwriting Agreement and ending 180 days after the date of the listing of the shares on the Spanish Stock Exchanges, it will not, without the prior written consent of the Joint Global Coordinators and Joint Bookrunners on their own behalf and on behalf of the other Managers and the Spanish institutional underwriters, (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, pledge, lend or otherwise transfer or dispose of any shares or any shares convertible into or exercisable or exchangeable for shares or file any registration statement under the Securities Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the shares, whether any such swap or transaction described in (i) or (ii) above is to be settled by delivery of shares or such other shares, in cash or otherwise. In each case, foregoing sentence will not apply in limited circumstances.

Stabilization and Over-allotment

In connection with the offering, Merrill Lynch International, as stabilizing manager, or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot or effect other transactions with a view to supporting the market price of the shares at a higher level than might otherwise prevail in the open market. Such transactions may commence on or after the date of commencement of trading on the Spanish Stock Exchanges and the Automated Quotation System and will end no later than 30 calendar days thereafter. Such transactions may be effected on any stock market, over-the-counter market or otherwise. There is no assurance that such transactions will be undertaken and, if commenced, they may be discontinued at any time. Except as required by law, the stabilizing manager does not intend to disclose the extent of any over-allotments and/or stabilization transactions under the offering.

Certain of our selling shareholders have granted an option to the Managers and the Spanish institutional underwriters, acting severally and not jointly, to procure purchasers for or, failing which, to purchase additional shares representing a maximum of 10% of the total number of shares comprising the offering. The option expires 30 days after the date of commencement of trading of the shares on the Spanish Stock Exchanges and the Automated Quotation System and may be exercised in whole or in part from time to time on one or more occasions including for the purpose of covering

over-allotments (if any) and short positions resulting from stabilization transactions, upon notice from Merrill Lynch International.

Other Relationships

The Managers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the company and the selling shareholders and any of their respective affiliates. The Managers have received customary fees and commissions for these transactions and services. Banco Bilbao Vizcaya Argentaria, S.A. is the parent company of four of our significant shareholders and has, within the past year, entered into an agreement to purchase our shares from other shareholders at a price that differs from the price for the offering described in this offering memorandum and has also entered into a shareholders' agreement with certain of our shareholders. In addition, Banco Bilbao Vizcaya Argentaria, S.A. has received customary fees in connection with certain loans extended to us. See "Principal and Selling Shareholders" and "Related Party Transactions".

TRANSFER AND SELLING RESTRICTIONS

Selling Restrictions

No action has been taken by the selling shareholders, the Managers or us that would permit, other than under the offering, an offer of shares or possession or distribution of this offering memorandum or any other offering material in any jurisdiction where action for that purpose is required.

The distribution of this offering memorandum and the offer of shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this offering memorandum comes should inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) an offer to the public of any shares which are the subject of the offering contemplated by this offering memorandum (the “**Shares**”) may not be made in that Relevant Member State prior to the publication of a prospectus in relation to the Shares that has been approved by the relevant competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State all in accordance with the Prospectus Directive except that an offer to the public in that Relevant Member State of any Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) annual revenues of more than €50,000,000, as shown in its last (or in the case of Sweden in its last two) annual or consolidated accounts;
- by the Managers to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Lead Managers for any such offer; or
- in any other circumstances following within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the publication by the Company or any Manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any Shares under, the offers contemplated in this offering memorandum will be deemed to have represented, warranted and agreed to and with each Manager that:

- it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospective Directive;
- in the case of any Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Shares acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in Prospectus Directive, or in circumstances in which the prior consent of the Lead

Managers has been given to the offer or resale; or (ii) where Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this provision and representation, the expression an “offer to the public” in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Manager will represent, warrant and agree that (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any shares in circumstances in which section 21(1) of the FSMA does not apply to the selling shareholders or the Company; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

United States

The shares have not been and will not be registered under the Securities Act, and, subject to certain exceptions, may not be offered or sold within the United States.

The shares are being offered and sold outside of the United States in reliance on Regulation S. The Underwriting Agreement provides that the Managers may arrange for the offer and resale of shares within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the shares, an offer or sale of shares within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

Spain

Any shares acquired in connection with the distribution contemplated hereby shall not be offered or sold, directly or indirectly, in Spain or to or for the account of any resident thereof, except in accordance with all applicable Spanish laws and regulations.

France

Neither this offering memorandum nor any other material relating to the offering has been submitted for clearance by the *Autorité des Marchés Financiers* in France. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this offering memorandum nor any other documents or materials relating to the offering or the shares has been or will be (i) released, issued, distributed, or caused to be released, issued or distributed, to the public in France or (ii) used in connection with any offer, sale or distribution of the shares to the public in France. Such offers, sales and distributions may be made in France only to qualified investors

(*investisseurs qualifiés*), but excluding individuals referred to in Article D.411-1 II 2° of the French *Code Monétaire et Financier* as defined in, and in accordance with, Articles L.411-2, D.411-1 to D.411-3 of the French *Code Monétaire et Financier*. Investors in France and persons who come into possession of this offering memorandum or any other documents or materials relating to the offering or the shares are required to inform themselves about and observe any such restrictions.

Italy

The offering of the shares has not been registered with the *Commissione Nazionale per la Società e la Borsa* (“CONSOB”) (the Italian securities exchange commission) pursuant to the Italian securities legislation. No Manager is permitted to offer, sell or deliver any shares nor distribute any copies of this offering memorandum or any other document relating to the shares in the Republic of Italy (“**Italy**”) in a solicitation to the public at large (*sollecitazione all’investimento*). Accordingly, shares in Italy shall only be:

- (i) offered or sold to professional investors (*operatori qualificati*) as defined in Article 31, second paragraph of CONSOB Regulation No 11522 of 1 July 1998 (the “**Regulation No 11522**”), as amended; or
- (ii) offered or sold in circumstances where an exemption from the rules governing solicitations to the public at large applies, pursuant to Article 100 of Legislative Decree No 58 of 24 February 1998 (the “**Financial Services Act**”) and Article 33, first paragraph, of CONSOB Regulation No 11971 of 14 May 1999 (the “**Regulation No 11971**”), as amended,

and shall in any event be effected in accordance with all relevant Italian securities, tax and exchange control and other applicable laws and regulations.

In connection with (i) and (ii) above, the shares may not be offered, sold or delivered and neither this offering memorandum nor any other material relating to the shares may be distributed or made available in Italy unless such offer, sale or delivery of shares or distribution or availability of copies of this offering memorandum or any other material relating to the shares in Italy:

- (i) is in compliance with Article 129 of Legislative Decree No 385 of 1 September 1993 (the “**Italian Banking Act**”) and the implementing guidelines of the Bank of Italy, pursuant to which the issue or the offer of shares in Italy may need to be followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in Italy and their characteristics; and
- (ii) is made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with the Financial Services Act, the Italian Banking Act, the Regulation No 11522, the Regulation No 11971 and any other applicable laws and regulations.

Insofar as the requirements above are based on laws that are superseded at any time pursuant to the implementation of the Prospectus Directive, such requirements shall be replaced by the applicable requirements under the Prospectus Directive.

Switzerland

This offering memorandum does not constitute an issue prospectus pursuant to Art. 652a or Art. 1156 of the Swiss Code of Obligations and may not comply with the Directive for Shares of Foreign Borrowers of the Swiss Bankers Association. The Company has not and will not register with the Swiss Federal Banking Commission as a foreign investment fund. The shares will not be listed on

the SWX Swiss Exchange and, therefore, this offering memorandum does not comply with the disclosure standards of the Listing Rules of the SWX Swiss Exchange. Accordingly, the shares may not be offered to the public in or from Switzerland, but only to a selected and limited group of investors, which do not subscribe the shares with a view to distribution to the public. The investors will be individually approached by the Managers from time to time.

This offering memorandum is personal to each offeree and does not constitute an offer to any other person. This offering memorandum may only be used by those persons to whom it has been handed out in connection with the offer described herein and may neither directly nor indirectly be distributed or made available to other persons without the express consent of the Company. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in Switzerland.

Australia

This offering memorandum does not constitute a disclosure document under Chapter 6D of the Corporations Law of Australia (the “**Corporations Law**”) and will not be lodged with the Australian Securities and Investments Commission. The shares will be offered to persons who receive offers in Australia only to the extent that such offers of shares for issue do not need disclosure to investors under Chapter 6D of the Corporations Law. Any offer of shares received in Australia is void to the extent that it needs disclosure to investors under the Corporations Law. In particular, offers of shares will only be made in Australia in reliance on various exemptions from such disclosure to investors provided by section 708 of the Corporations Law. Any person to whom shares are issued pursuant to an exemption provided by section 708 of the Corporations Law must not within 12 months after the issue, offer those shares for sale in Australia unless that offer is itself made in reliance on an exemption from disclosure provided by that section.

Japan

The shares have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948 as amended), and may not be offered or sold, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and other relevant laws and regulations of Japan. For the purpose hereof, “resident of Japan” means any person resident in Japan including any corporation or other entity organized under the laws of Japan.

Transfer Restrictions

Rule 144A Shares

Each purchaser of shares within the United States pursuant to Rule 144A, by accepting delivery of this offering memorandum, will be deemed to have represented, agreed and acknowledged as follows:

- It is (a) a qualified institutional buyer within the meaning of Rule 144A (“**QIB**”), (b) acquiring such shares for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such shares has been advised, that the sale of such shares to it is being made in reliance on Rule 144A.
- It understands that such shares have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an

exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States. It understands that such shares are “restricted” within the meaning of Rule 144(a)(3) under the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of such shares. The purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of such shares from it of the sale restrictions referred to above.

- It understands that any such shares issued in definitive form, unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

THIS SHARE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THIS SHARE.

- The Company, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any shares for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

You are hereby notified that sellers of the shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

MATERIAL TAX CONSIDERATIONS TO INVESTORS

Spanish Tax Considerations

General

The following is a summary of the material Spanish tax consequences of the acquisition, ownership and disposition of our shares by non-Spanish resident investors. This summary is not a complete analysis or listing of all the possible tax consequences of such transactions and does not address all tax considerations that may be relevant to all categories of potential purchasers, some of whom may be subject to special rules. In particular, this tax section does not address the Spanish tax consequences applicable to “look-through” entities (*entidades en regimen de atribución de rentas*) (such as trusts or estates) that may be subject to the tax regime applicable to such non-Spanish entities under the Spanish Income Tax Laws.

Accordingly, prospective investors in the shares should consult their own tax advisers as to the applicable tax consequences of the purchase, ownership and disposition of the shares, including the effect of tax laws of any other jurisdiction, based on their particular circumstances.

The description of Spanish tax laws set forth below is based on law currently in effect in Spain as of the date of this international offering memorandum, and on administrative interpretations of Spanish law. As a result, this description is subject to any changes in such laws or interpretations occurring after the date hereof, including changes having retroactive effect.

As used in this particular section “Spanish Tax Considerations”, the term “Holder” means a beneficial owner of our shares:

- (1) who is an individual or corporation resident for tax purposes in any country other than Spain;
- (2) whose ownership of shares is not effectively connected with a permanent establishment in Spain; and
- (3) who is not treated as owning 5% or more of the share capital of Técnicas Reunidas.

Taxation of Dividends

Under Spanish law, dividends paid by a Spanish resident company to a Holder are subject to Spanish Non-Resident Income Tax, governed by Royal Decree Legislative 5/2004 of March 5 (“**NRIT**”), withheld at the source on the gross amount of dividends, currently at a tax rate of 15% (this rate is expected to be increased up to 18% as from 1 January 2007).

In the event that we offer Holders the option to automatically reinvest the dividend payment in our newly issued shares, the dividends received by the Holders who elect to reinvest will be subject to the same tax treatment as discussed above (i.e., NRIT at the applicable rate, currently 15%, will be withheld at source from the gross amount of the dividend).

However, Holders resident in certain countries will be entitled to the benefits of a Double Taxation Convention (“**DTC**”), in effect between Spain and their country of tax residence. Such Holders may benefit from a reduced tax rate or an exemption, subject to the satisfaction of any conditions specified in the relevant DTC including providing evidence of its tax residence by means of a certificate of tax residence duly issued by the tax authorities of the country of tax residence of Holder or, as the case may be, the equivalent document regulated in the Order which further develops the applicable DTC. For NRIT purposes, a certificate of tax residence is valid for one year from its date of issue.

Upon distribution of a dividend, we or our paying agent will withhold an amount equal to the tax amount required to be withheld according to the rules set forth above (i.e., applying the general NRIT rate of 15%—presumably 18% as from 1 January 2007), transferring the resulting net amount to the depositary. For this purpose, the depositary is the financial institution with which the Holder has entered into a contract of deposit or management with respect to our shares held by such Holders. If the depositary of the Holder is resident, domiciled or represented in Spain and it provides timely evidence (i.e., a certificate of residence issued by the relevant tax authorities of the Holder's country of residence stating that the Holder is a resident of such country within the meaning of the relevant DTC or, as the case may be, the equivalent document regulated in the Order which further develops the applicable DTC) of the Holder's right to obtain the DTC-reduced rate or the exemption, it will immediately receive the surplus amount withheld, which will be credited to the Holder. For these purposes, the relevant certificate of residence (or, as the case may be, the equivalent document regulated in the Order that further develops the applicable DTC) must be provided before the tenth day following the end of the month in which the dividends were payable. The tax certificate is valid only for a period of one year from the date of issuance.

If this certificate of residence or, as the case may be, the equivalent document referred to above, is not provided within this time period or if the depositary of the Holder is not resident, domiciled or represented in Spain, the Holder may subsequently obtain a refund of the amount withheld in excess from the Spanish tax authorities, following the standard refund procedure established by the Royal Decree 1776/2004, dated July 30, 2004, and an Order dated December 23, 2003, as amended.

A Holder will not be required to file a tax return in respect of dividend payments so long as the relevant withholding has been made or the relevant exemption has been claimed.

Spanish Refund Procedure

According to Spanish Regulations on NRIT, approved by Royal Decree 1776/2004 and the Order dated December 23, 2003, a refund for the amount withheld in excess of the DTC-reduced rate can be obtained from the relevant Spanish tax authorities. To pursue the refund claim, the Holder is required to file with the Spanish tax authorities:

- (1) the corresponding Spanish Tax Form (currently, Form 210);
- (2) the certificate of residence or equivalent document referred to above under “—Taxation of Dividends”; and
- (3) a certificate from us stating that Spanish NRIT was withheld with respect to such Holder.

For further details, prospective Holders should consult their own tax advisers.

Taxation of Rights

Distributions to Holders of pre-emptive rights to subscribe for new shares made with respect to the shares are not treated as income under Spanish law and, therefore, are not subject to Spanish NRIT. The exercise of such pre-emptive rights is not considered a taxable event under Spanish law and thus is not subject to Spanish NRIT.

However, if these pre-emptive rights are transferred by the Holders, the amount received as a result of the transfer will reduce the acquisition cost of the shares to which they pertain. If the amount received exceeds this acquisition cost the excess will be regarded as a capital gain and will be subject to Spanish NRIT in the manner described under “Taxation of Capital Gains” below.

Taxation of Capital Gains

Capital gains derived from the transfer, exchange, redemption or sale of the shares will be deemed Spanish source income, and, therefore, taxable in Spain at a NRIT rate of 35% (this NRIT rate is expected to be reduced to 18% as from 1 January 2007).

Capital gains and losses will be calculated separately for each transaction. It is not possible to offset losses against capital gains.

However, capital gains derived from our shares will be exempt from taxation in Spain in any of the following cases:

- (1) Capital gains derived from the transfer of the shares on an official Spanish secondary stock market (such as the Madrid or Barcelona stock exchanges) by any Holder who is resident of a country that has entered into a DTC with Spain containing an “exchange of information” clause (which currently includes all Spanish DTCs except Switzerland). This exemption is not applicable to capital gains obtained by a Holder through a country or territory that is defined as a tax haven by Spanish regulations or through a permanent establishment of the Holder in Spain.
- (2) Capital gains obtained by any Holder resident of another EU Member State or indirectly through a permanent establishment of such Holder in a EU Member State other than Spain, *provided* that:
 - the assets of Técnicas Reunidas, directly or indirectly, do not consist mainly of Spanish real estate;
 - during the preceding twelve months the Holder has not held a direct or indirect interest of at least 25% in our capital or net equity; and
 - the gain is not obtained through a country or territory defined as a tax haven under applicable Spanish regulations or through a permanent establishment of the Holder in Spain.
- (3) Capital gains realized by Holders not resident in Spain who benefit from a DTC that provides for taxation only in the Holder’s country of residence.

Holdes must submit a Spanish Tax Form (currently, Form 210) within one month from the date on which the relevant capital gain is realized in order to pay the corresponding tax or claim for an applicable internal exemption or an exemption applicable to Holders that benefit from a DTC that provides for taxation only in the Holder’s country of residence. In order for the above mentioned exemptions to apply, a Holder must provide (i) a certificate of tax residence issued by the tax authority of its country of residence stating that the Holder is resident for tax purposes of such country, if it is applicable to an internal exemption, or (ii) a certificate of tax residence issued by the tax authority of its country of residence (which, if applicable, must state that Holder is resident for tax purposes of such country within the meaning of the relevant DTC) or equivalent document regulated in the Order which further develops the applicable DTC, together with the Spanish Tax Form 210. The Holder’s tax representative in Spain and the depositary of the shares are also entitled to carry out such filing.

Spanish Wealth Tax

Unless an applicable DTC provides otherwise, Spanish non-resident individuals who hold shares located in Spain or rights attached to such shares exercisable in Spain are subject to the Spanish Wealth Tax (*Impuesto sobre el Patrimonio*) (Spanish Law 19/1991), which imposes a tax on property and rights located in Spain or that can be exercised within the Spanish territory, on the last day of any year (December 31). Therefore, non-Spanish resident individuals who hold shares on the last day of any

year would be subject to the Spanish Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the average market value of the shares during the last quarter of such year.

The Spanish Ministry of Economy and Treasury will publish each year such average market value of the shares. Holders who benefit from a DTC that provides for taxation only in the Holder's country of residence will not be subject to the Spanish Wealth Tax.

Spanish Inheritance and Gift Tax

Unless otherwise provided under an applicable DTC, transfers of shares upon death and by gift to individuals not resident in Spain are subject to Spanish Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*) (Spanish Law 29/1987), if the shares are located in Spain or the rights attached to such shares are exercisable in Spain at the time of death or gift, regardless of the residence of the heir or the beneficiary. The applicable tax rate, after applying all relevant factors, ranges between 7.65% and 81.6% for individuals. Gifts granted to non-Spanish resident corporations will be generally subject to Spanish NRIT as capital gains, without prejudice to the exemptions referred to above under "Taxation of Capital Gains".

Spanish Transfer Tax

Subscriptions, acquisitions and transfers of shares will be exempt from Transfer Tax (*Impuesto sobre Transmisiones Patrimoniales*) and Value Added Tax. Additionally, no Stamp Duty will be levied on such transactions.

United States Taxation

The discussion of US tax matters set forth in this offering memorandum was written in connection with the promotion or marketing of this offering and was not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under US federal, state or local tax law. Each prospective investor should seek advice based on its particular circumstances from an independent tax advisor.

The following is a summary of certain US federal income tax considerations relevant to a US Holder (as defined below) acquiring, holding and disposing of shares. This summary is based upon existing US federal income tax law, which is subject to change, possibly with retroactive effect. This summary does not discuss all aspects of US federal income taxation which may be important to particular investors in light of their individual investment circumstance, including investors subject to special tax rules, such as residents of Spain for Spanish tax purposes, investors that conduct a business or have a permanent establishment in Spain, financial institutions, insurance companies, broker-dealers, tax-exempt organizations, partnerships, holders who are not US Holders, holders who own (directly, indirectly or constructively) 10% or more of our voting stock, investors that will hold shares as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for US federal income tax purposes, or investors that have a functional currency other than the US dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not discuss any non-US, state or local tax considerations. This summary assumes that investors will hold their shares as "capital assets" (generally, property held for investment) under the US Internal Revenue Code of 1986, as amended. You are urged to consult your tax advisor regarding the US federal, state, local and non-US income and other tax considerations relevant to an investment in the shares.

For purposes of this summary, a "US Holder" is a beneficial owner of shares that is for US federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organized under the law of, the United States or any State or political subdivision thereof, (iii) an estate the income of which is includible in gross income for US federal

income tax purposes regardless of its source, or (iv) a trust the administration of which is subject to the primary supervision of a US court and which has one or more US persons who have the authority to control all substantial decisions of the trust.

Dividends

Subject to the application of the passive foreign investment company rules discussed below, any cash distributions paid by us (including the amount of any Spanish tax withheld) out of our earnings and profits, as determined under US federal income tax principles, will be subject to tax as foreign source ordinary dividend income and will be includible in your gross income upon receipt.

Subject to applicable limitations, dividends received by non-corporate US Holders will generally be subject to US federal income tax at lower rates (generally 15%) than other types of ordinary income. US Holders should consult their own tax advisors regarding the applicability and implications of this preferential rate in their particular circumstances. The amount of any distribution paid in euro will equal a US dollar value of such euro on the date of receipt of such distribution, regardless of whether the euros are actually converted into US dollars at that time. If dividends received in euro are converted into US dollars on the day they are received, the US Holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. Gain or loss, if any, recognized on a subsequent sale, conversion or other disposition of euro generally will be US source ordinary income or loss. Dividends received on the shares will not be eligible for the dividends received deduction allowed to corporations.

Subject to certain limitations, Spanish withholding tax, if any, paid in connection with any distribution with respect to shares may be claimed as a credit against the US federal income tax liability of a US Holder if such US Holder elects for that year to credit all foreign income taxes; otherwise, such Spanish withholding tax may be taken as a deduction. US Holders that are eligible for benefits under the double tax treaty between the United States and Spain (the “**Treaty**”) will not be entitled to a foreign tax credit for the amount of any Spanish taxes withheld in excess of the maximum rate under the Treaty, and with respect to which the holder can obtain a refund from the Spanish taxing authorities. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. US Holders should consult their own tax advisors concerning the availability and utilization of the foreign tax credit.

Sale or Other Disposition of Shares

Subject to the application of the passive foreign investment company rules discussed below, you will recognize capital gain or loss upon the sale or other disposition of shares in an amount equal to the difference between the US dollar value of the amount realized upon the disposition and your adjusted tax basis in such shares (generally their cost in US dollars). Any capital gain or loss will be long-term if the shares have been held for more than one year and will generally be US source gain or loss for US foreign tax credit purposes. The deductibility of capital losses may be subject to limitations. US Holders should consult their own advisors concerning the proper method for accounting for sale or disposition proceeds that are paid in a currency other than the US dollar.

Passive Foreign Investment Company Rules

We do not believe that we will be classified as a passive foreign investment company (a “**PFIC**”) for the current year nor do we expect to be classified as a PFIC in subsequent years. The determination of whether we are a PFIC is made annually. Therefore, it is possible that we could become a PFIC in the current or any future year due to changes in the assets or income composition of our company and our subsidiaries. In general, a non-US corporation will be classified as a PFIC for any taxable year if at least (i) 75% of its gross income is classified as “passive income” or (ii) 50% of

the average quarterly value of its assets produce or are held for the production of passive income. In making this determination, the non-US corporation is treated as earning its proportionate share of any income and owning its proportionate share of any assets of any company in which it holds a 25% or greater interest, by value. For these purposes, cash (including the proceeds of a stock offering) is considered a passive asset and gross interest is considered as passive income. Under the PFIC rules, if we were considered a PFIC at any time that you held our shares, we would continue to be treated as a PFIC with respect to your investment unless you have made certain elections under the PFIC rules.

If we are considered a PFIC at any time that you hold our shares, you may be subject to materially adverse US federal income tax consequences compared to an investment in a company that is not considered a PFIC, including being subject to greater amounts of US tax and being subject to additional tax form filing requirements. Additionally, dividends paid by us would not be eligible for the special reduced rate of tax described above under “Dividends”. You should consult your own tax advisor about the application of the PFIC rules to you.

VALIDITY OF THE SHARES AND LEGAL MATTERS

The validity of the shares offered and certain matters governed by Spanish law will be passed on for Técnicas Reunidas by Uría Menéndez, Técnicas Reunidas's Spanish counsel, and for the Managers by Linklaters, Spanish counsel to the Managers.

INDEPENDENT AUDITORS

The financial statements prepared in accordance with International Financial Reporting Standards as of December 31, 2005 and for the year then ended, included in this offering memorandum, have been audited by PricewaterhouseCoopers Auditores, S.L., independent auditors, as stated in their report appearing herein. The financial statements prepared in accordance with Spanish GAAP as of December 31, 2004 and 2003 and for the years then ended, included in this offering memorandum, have been audited by PricewaterhouseCoopers Auditores, S.L., independent auditors, as stated in their report appearing herein.

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Directors' Report

The Directors' Report referred to in the accompanying auditors report has not been included in this offering memorandum. The scope of the work performed by our auditors on the Directors' Report for 2005 is described in paragraph 4 of the Auditor's Report to our IFRS-EU annual accounts and has not been conducted in accordance with professional auditing standards generally accepted in the United States or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Free translation of the auditor's report originally issued in Spanish on the consolidated annual accounts for the first financial year prepared in accordance with International Financial Reporting Standards as adopted by the European Union. In the event of a discrepancy, the Spanish language version prevails

AUDITOR'S REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the Shareholders of Técnicas Reunidas, S.A.

1. We have audited the consolidated annual accounts of Técnicas Reunidas, S.A. (Parent Company) and its subsidiaries (the Group), consisting of the consolidated balance sheet at 31 December 2005, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes to the consolidated annual accounts for the year then ended, the preparation of which is the responsibility of the Directors of the Parent Company. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with auditing standards generally accepted in Spain, which require the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made. Our work did not include the examination of the annual accounts as of 31 December 2005 of certain companies detailed in Exhibit III to the consolidated annual accounts, in which Técnicas Reunidas, S.A. holds an interest and whose assets and revenues represent, respectively, 2.3% and 5.6% of the corresponding consolidated figures. Those annual accounts were examined by other auditors (see Exhibit III), and our opinion on the consolidated annual accounts of Técnicas Reunidas, S.A. is based, with respect to the shareholdings in those companies, solely on the reports issued by the other auditors.
2. The accompanying consolidated annual accounts for 2005 correspond to the first consolidated annual accounts prepared by the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), which generally require that the annual accounts include comparative information. In this respect, for comparative purposes and in compliance with Spanish Corporate Law, the Parent Company's Directors have presented the amounts for the previous year, that have been restated to comply with IFRS-EU effective at 31 December 2005, together with the amounts for 2005, for each of the items in the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes to the consolidated annual accounts. Therefore, the figures for the previous year differ from those contained in the consolidated annual accounts for 2004 which were prepared in accordance with the accounting standards effective in that year. The differences resulting from the application of IFRS-EU to consolidated equity at 1 January and 31 December 2004 and to the

consolidated results for 2004 of the Group are set out in note 5 to the accompanying consolidated annual accounts. Our opinion refers solely to the 2005 consolidated annual accounts. On 5 April 2005 we issued our audit report on the consolidated annual accounts for 2004, prepared under accounting standards effective in that year, in which we expressed an unqualified opinion.

3. In our opinion, on the basis of our audit and the reports issued by other auditors, the accompanying consolidated annual accounts for 2005 present fairly, in all material respects, the consolidated financial position of Técnicas Reunidas, S.A. and its subsidiaries as at 31 December 2005 and the consolidated results of their operations, changes in consolidated net equity and consolidated cash flows for the year then ended and contain all the information necessary for their interpretation and comprehension in accordance with International Financial Reporting Standards adopted by the European Union which are consistent with those applied in the preparation of the consolidated annual accounts for the previous year, which are included in the accompanying consolidated annual accounts for 2005 for comparative purposes.
4. The accompanying consolidated Directors' Report for 2005 contains the information that the Parent Company's Directors consider relevant to the Group's position, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the aforementioned Directors' Report agrees with that of the consolidated annual accounts for 2005. Our work as auditors is limited to checking the consolidated Directors' Report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from the accounting records of Técnicas Reunidas, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Originally signed by Javier Lapastora Turpín
Audit Partner

20 April 2006

TECNICAS REUNIDAS, S.A. AND SUBSIDIARIES

**Consolidated Annual Accounts at 31 December 2005
and Director's Report for 2005**

Free translation of the consolidated annual accounts originally issued in Spanish and prepared in accordance with International Reporting Standards as adopted by the European Union. In the event of a discrepancy, the Spanish language version prevails.

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
AND SUBSIDIARIES AT 31 DECEMBER 2005**

CONSOLIDATED BALANCE SHEET

	Note	At 31 December	
		2005	2004
		(In thousands of euros)	
ASSETS			
Non-current assets			
Property, plant and equipment	7	16,284	10,208
Goodwill	8	1,242	1,242
Other intangible assets	8	3,492	3,235
Investments in associates	9	11,506	10,422
Deferred tax assets	30	24,020	19,315
Available-for-sale financial assets	10	687	314
Derivative financial instruments	11	187	—
Receivables and other assets	14	2,027	1,255
		<u>59,445</u>	<u>45,991</u>
Current assets			
Inventories	13	5,876	2,655
Trade and other receivables	12	473,008	295,528
Receivables and other assets	14	3,520	701
Derivative financial instruments	11	50	3,867
Financial assets at fair value through profit or loss	15	57,266	54,337
Cash and cash equivalents	16	258,135	115,346
		<u>797,855</u>	<u>472,434</u>
Total assets		<u>857,300</u>	<u>518,425</u>

Notes 1 to 40 and Exhibits I to IV form an integral part of these consolidated annual accounts.

Free translation of the consolidated annual accounts originally issued in Spanish and prepared in accordance with International Reporting Standards as adopted by the European Union. In the event of a discrepancy, the Spanish language version prevails.

**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
AND SUBSIDIARIES AT 31 DECEMBER 2005**

CONSOLIDATED BALANCE SHEET

	Note	At 31 December	
		2005	2004
		(In thousands of euros)	
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	17	5,590	5,590
Share premium account	17	8,691	8,691
Other reserves	18	1,137	1,137
Hedging reserve	11	(10,552)	1,122
Cumulative translation difference	19	(545)	(896)
Retained earnings	20	152,156	123,770
Interim dividend	20	(12,000)	—
Minority interests	20	2,131	1,118
Total equity		146,608	140,532
LIABILITIES			
Non-current liabilities			
Derivative financial instruments	11	726	—
Deferred tax liabilities	30	258	277
Other payables	21	889	931
Other liabilities		3,153	3,168
Employee benefit obligations	23	3,730	3,324
Provisions for liabilities and charges	24	45,238	33,164
		53,994	40,864
Current liabilities			
Trade payables	21	550,685	301,020
Current tax liabilities		17,323	7,061
Borrowings	22	54,210	18,773
Derivative financial instruments	11	11,468	3,475
Other payables	21	17,991	3,797
Provisions for liabilities and charges	24	5,021	2,903
		656,698	337,029
Total liabilities		710,692	377,893
Total equity and liabilities		857,300	518,425

Notes 1 to 40 and Exhibits I to IV form an integral part of these consolidated annual accounts.

Free translation of the consolidated annual accounts originally issued in Spanish and prepared in accordance with International Reporting Standards as adopted by the European Union. In the event of a discrepancy, the Spanish language version prevails.

**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
AND SUBSIDIARIES AT 31 DECEMBER 2005**

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Note	2005	2004
		(In thousands of euros)	
Revenues	25	685,114	555,945
Difference between opening and closing inventories		(741)	571
Own work capitalised		822	3,694
Raw materials and consumables		(380,134)	(322,935)
Employee benefit expense	27	(117,761)	(108,252)
Depreciation and amortisation	7 and 8	(2,712)	(2,467)
Transport costs		(3,877)	(224)
Lease and royalty costs	28	(11,402)	(8,365)
Other operating costs	26	(145,849)	(104,037)
Other operating revenues	26	5,123	4,595
Operating profit		28,583	18,525
Financial income /(expense)	29	6,837	(584)
Share in results obtained by associates		1,172	(598)
Profit before taxes		36,592	17,343
Income tax	30	(5,030)	(5,968)
Profit for the year		41,622	23,311
Attributable to:			
Company shareholders	20	41,167	23,160
Minority interests		455	151
		41,622	23,311
Earnings per share (expressed in euros per share)			
- Basic and diluted	31	44.19	24.86

Notes 1 to 40 and Exhibits I to IV form an integral part of these consolidated annual accounts.

Free translation of the consolidated annual accounts originally issued in Spanish and prepared in accordance with International Reporting Standards as adopted by the European Union. In the event of a discrepancy, the Spanish language version prevails.

**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
AND SUBSIDIARIES AT 31 DECEMBER 2005**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the Company's shareholders							Total equity
	Share capital (Note 17)	Share premium account (Note 17)	Other reserves (Note 18)	Hedging reserve (Note 11)	Cumulative translation difference (Note 19)	Retained earnings (Note 20)	Interim dividend (Note 20)	Minority interests (Note 20)
	(In thousands of euros)							
Balance at 1 January 2004	5,599	8,691	1,137	5,935	—	127,496	(19,618)	928
Distribution of 2003 profits	—	—	—	—	—	(26,818)	19,618	—
Net effect on hedging reserves	—	—	—	(4,813)	—	—	—	—
Other movements	(9)	—	—	—	(896)	(68)	—	39
Profit for 2004	—	—	—	—	—	23,160	—	151
Balance at 31 December 2004	5,590	8,691	1,137	1,122	(896)	123,770	—	1,118

Notes 1 to 40 and Exhibits I to IV form an integral part of these consolidated annual accounts.

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
AND SUBSIDIARIES AT 31 DECEMBER 2005**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the Company's shareholders								
	Share capital (Note 17)	Share premium account (Note 17)	Other reserves (Note 18)	Hedging reserve (Note 11)	Cumulative translation difference (Note 19)	Retained earnings (Note 20)	Interim dividend (Note 20)	Minority interests (Note 20)	Total equity
	(In thousands of euros)								
Balance at 1 January 2005	5,590	8,691	1,137	1,122	(896)	123,770	—	1,118	140,532
Distribution of 2004 profits	—	—	—	—	—	(12,800)	—	—	(12,800)
Net effect on hedging reserves	—	—	—	(11,674)	—	—	—	—	(11,674)
Other movements	—	—	—	—	351	19	—	558	928
Profit for 2005	—	—	—	—	—	41,167	—	455	41,622
Interim dividend for 2005	—	—	—	—	—	—	(12,000)	—	(12,000)
Balance at 31 December 2005	5,590	8,691	1,137	(10,552)	(545)	152,156	(12,000)	2,131	146,608

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
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CONSOLIDATED CASH FLOW STATEMENT

	<u>Notes</u>	<u>Year ended 31 December</u>	
		<u>2005</u>	<u>2004</u>
		<u>(In thousands of euros)</u>	
Cash flows from operating activities			
Profit for the year		41,622	23,311
Adjustments:			
- Taxes	30	(5,030)	(5,968)
- Depreciation/amortisation of PPE and intangible assets	7,8	2,712	2,467
- Net movements in provisions for liabilities and charges		14,598	(13,958)
- Results from derivative instrument transactions		(1,303)	4,405
- Financial revenue	29	(5,796)	(4,120)
- Interest cost		1,223	957
- Share in results obtained by associates		(1,172)	598
- Net exchange differences		(3,307)	3,747
- Other adjustments		71	(16)
Changes in working capital			
- Inventories		(3,221)	(901)
- Trade and other receivables		(177,480)	(25,817)
Other receivables		(2,819)	698
- Financial assets at fair value through profit or loss		(2,929)	8,559
- Trade payables		249,665	4,260
- Current tax liabilities		10,262	(5,238)
- Other payables		14,194	1,301
Cash generated from operations		131,290	(5,715)
Interest paid		(896)	(951)
Taxes paid		—	—
Net cash generated from operating activities		130,394	(6,666)
Cash flows from investing activities			
Purchases of property, plant and equipment	7	(8,413)	(3,006)
Purchases of intangible assets	8	(1,011)	(2,109)
Acquisition of available- for- sale financial assets		(615)	(69)
Acquisition of associates		(101)	(4,815)
Acquisition of other long-term assets		(772)	—
Disposal of long-term assets		—	114
Interest received		711	165
Net cash generated from investing activities		(10,201)	(9,720)
Cash flows from financing activities			
Proceeds from borrowings		35,396	7,384
Dividends paid		(12,800)	(26,861)
Net cash generated from financing activities		22,596	(19,477)
Net change in cash and cash equivalents		142,789	(35,863)
Cash and cash equivalents at beginning of the year		115,346	151,209
Cash and cash equivalents at end of the year		258,135	115,346

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

(In thousands of euros)

1. General information

TÉCNICAS REUNIDAS, S.A.(hereinafter the Company) is the parent of the Group and was incorporated on 6 July 1960 as a Public Limited Liability Company. It is entered in the Madrid Mercantile Registry, Volume 1407, Sheet 129, Page 5692 of the Companies Book. The latest adaptation and modification of its Articles of Association are entered into Volume 4359, Section 8, Book 0, Sheet 31, Page M-72319, entry 103.

The mercantile and tax domicile of TECNICAS REUNIDAS, S.A. is located at Calle Arapiles 14 in Madrid. Its main offices are located at Calle Arapiles 13 in Madrid.

The Company's corporate purpose consists of the performance of all classes of engineering services and the construction of industrial plants, including viability or basic and conceptual engineering studies to turnkey engineering, design and construction of large, complex projects, the management of supply, equipment and material deliveries and the construction of plants and related or associated services, such as technical assistance, construction supervision, project management, launch and training.

Within its engineering service activity, the Group operates through several lines of business, mainly in the refinery, gas and energy sectors.

These consolidated annual accounts were prepared by the Board of Directors on 20 March 2006. The Directors will submit these consolidated annual accounts to Shareholders at a General Meeting and they are expected to be approved without any modification.

At the end of 2005 TÉCNICAS REUNIDAS, S.A. is the parent of a group (hereinafter the Group) formed by: TÉCNICAS REUNIDAS, S.A., the parent company, its subsidiaries and associates. In addition, together with other companies or participants, the Group has interests in joint ventures (hereinafter JV). Exhibits I, II and III to these notes contain additional information concerning the entities included in consolidation.

Group companies hold interests of less than 20% in other companies in which it does not maintain significant influence.

For the purposes of preparing the consolidated annual accounts, a group is understood to exist when the parent company has one or more subsidiaries, understood as those entities which the parent company controls directly or indirectly. The principles applied in the preparation of the Group's consolidated annual accounts together with the consolidation scope are set out in Note 2.2.

Exhibit I hereto set outs the identification details of the subsidiaries included in consolidation under the full consolidation method.

Exhibit II hereto set outs the identification details of the associates included in consolidation under the equity method.

Exhibit III hereto set outs the identification details of the JV's included in consolidation under the proportional method.

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

1. General information (continued)

Both the parent company and certain subsidiaries participate in Unión Temporal de Empresas (UTES) and the respective companies record the figures relating to these UTES on a proportional basis in accordance with the asset, liability, income and expense balances. Exhibit IV includes details of the UTES in which Group companies participate.

In 2005 the companies TR Engineering LLC, Ebramex, S.L. de C.V., Minatrico, S.L. de C.V., Construcción e Ingeniería FIM Ltda., Construcción e Ingeniería FI Ltda. and Construcción e Ingeniería DI Ltda. entered into the scope of consolidation. The company TR Engineering LLC was purchased by the Group in the year 2005 with the objective of establishing a permanent branch from where to control its operations in the Middle East. The other companies were founded in the year 2005 in relation to several projects to be developed in America.

2. Summary of the main accounting policies

2.1. Basis of preparation

The Group's consolidated annual accounts at 31 December 2005 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRIC) adopted for use in the European Union and approved by the European Commission Regulations (hereinafter IFRS-EU) and effective at 31 December 2005. These are the first consolidated annual accounts prepared under said standards (see Note 5).

The policies described below have been applied consistently to all years presented in these consolidated annual accounts, unless otherwise indicated.

Until the year ended 31 December 2004, inclusive, the Group's consolidated annual accounts were prepared in accordance with Spanish commercial legislation and the General Accounting Plan and Royal Decree 1815/1991 whereby the rules on the preparation of consolidated annual accounts were approved in accordance with generally accepted accounting principles (GAAP). Since these standards differ in some areas from IFRS-EU, Group management has restated the figures for 2004 in order to present comparative information in accordance with IFRS-EU.

The consolidated annual accounts have been prepared on a historical cost basis, except in those cases as established by the respective IFRS-EU standard when some assets are valued at fair value.

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

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
AND SUBSIDIARIES AT 31 DECEMBER 2005**

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

2.2. Consolidation principles

Subsidiaries

Subsidiaries are all companies over which the Group has the authority to direct financial and operating policies. Control is presumed to exist when the shareholding exceeds 50% of the voting rights or, if less, if other reasons or events demonstrate the existence of control. When assessing whether the Group controls another company, the existence and effects of potential voting rights which may be currently exercised or converted are taken into account. Subsidiaries are consolidated as from the date on which control is transferred to the Group and are excluded from the consolidation on the date on which such control ceases.

The Group accounts for the acquisition of subsidiaries under the purchase accounting method. Acquisition cost is the fair value of the asset delivered, the equity instruments issued and the liabilities incurred or assumed at the date of exchange, plus the costs directly attributable to the acquisition. The identifiable assets acquired and identifiable liabilities and contingencies assumed in a business combination are initially measured at fair value on the acquisition date, irrespective of minority interests. The excess of acquisition cost over the fair value of the Group's interest in identifiable net assets acquired is recognised as goodwill. If the acquisition cost is less than the fair value of net assets in the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment losses on the asset transferred. When necessary to ensure consistency with Group policies, subsidiaries' accounting policies are changed accordingly.

Exhibit I hereto set outs the identification details of the subsidiaries consolidated line by line.

Associates

Associates are all companies over which the Group exercises significant influence but does not control. Significant influence is presumed to exist when the shareholding is between 20% and 50% of voting rights or, when the shareholding is lower, there are events and circumstances which demonstrate the exercising of significant influence. Investments in associates are recorded using the equity method and are initially recognised at cost. Group investments in associates include goodwill (net of any accumulated impairment loss) identified on the acquisition.

The group's participation in subsequent losses or gains on the acquisition of associates are recognised in the income statement and its participation in movements subsequent to the acquisition are recognised in reserves. Accumulated movements subsequent to the acquisition are adjusted against the carrying amount for the investment. When the Group's share of the losses obtained by an associate is equal to or exceeds its shareholding, including any other unsecured receivables, the Group does not

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

recognise any additional losses unless it has incurred obligations, or made payments, on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are limited in accordance with the equity held by the Group in the associate concerned. Unrealised losses are also eliminated, except when the transaction provides evidence of impairment losses affecting the asset being transferred. When necessary to ensure consistency with Group policies, associates' accounting policies are changed accordingly.

Exhibit II hereto set outs the identification details of the associates included in consolidation under the equity method.

Joint ventures and UTEs

The Group considers joint ventures to be those entities, incorporated or not, where two or more participants maintain joint control by virtue of contractual agreements. Joint control is understood to be a situation that is contractually established between the parties, in which key financial and operational decisions require the unanimous agreement of participants.

Interests in joint ventures are consolidated using the proportional method.

The Group combines its shareholdings in the assets, liabilities, revenues and expenses, as well as cash flows of the jointly controlled company on a line by line basis together with those items in its accounts that are similar in nature.

The Group recognises its share in the profits or loss deriving from the sale of Group assets to jointly controlled entities in its consolidated annual accounts in the proportion corresponding to other participants. The Group does not recognise its share in the profits or loss of a jointly controlled entity deriving from the purchase by the Group of assets from the jointly controlled entity until the assets are sold to an independent third party. A loss is recognised immediately on a transaction if it reveals a reduction in the net realizable value of current assets, or any impairment loss. The accounting policies applied by the jointly controlled entities have been modified to the extent necessary to ensure consistency with the policies applied by the Group.

Exhibit III hereto set outs the identification details of the combined businesses included in consolidation under the proportional method.

An UTE, as defined by Spanish Law, is considered to be a cooperation system between companies for a certain time, whether known or unknown, during which a job, service or supply will be developed or executed.

As for interests in joint ventures, the proportional part of the balance sheet and income statement items relating to the UTE is incorporated into the balance sheet and income statement prepared by the participating Company based on its interest in the UTE.

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

Exhibit IV to these Notes identifies the UTEs whose financial information is recorded by the companies included within the scope of consolidation.

2.3. Segment reporting

A business segment is a group of assets and transactions, the aim of which is to supply products or services subject to risks and returns which differ from those of other business segments.

A geographical segment aims to supply products or services in a specific economic environment subject to risks and returns which differ from those of other segments operating in different economic environments.

The transactions between different segments are carried out on an arm's-length basis. The accounting policies for the segments are the same as those applied in the consolidated annual accounts.

2.4. Foreign currency transactions

Functional currency and presentation

The items included in the annual accounts of each of the Group companies are measured using the currency of the principal economic environment in which the company operates («functional currency»). The consolidated annual accounts are presented in euros, which is the parent company's functional and presentation currency.

Transactions and balances

Transactions in foreign currency are translated to the functional currency using the exchange rates in force at the transaction dates. Foreign currency gains and losses resulting from the settlement of transactions and translation at the year end exchange rates of monetary assets and liabilities denominated in foreign currency, are recognised in the income statement, unless they are deferred in equity as qualified cash flow hedges and qualified net investment hedges.

Translation differences in respect of non-monetary items such as equity instruments held at fair value through profit and loss are presented as part of the fair value gain or loss.

Group companies

Results and the financial situation of all Group companies (none of which has the currency of a hyperinflationary economy), with a functional currency that differs from the presentation currency are translated to the presentation currency as follows:

- (i) The assets and liabilities on each balance sheet presented are translated at the closing exchange rate at the balance sheet date;

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

- (ii) Revenues and expenses in each income statement are translated at the average exchange rates; and
- (iii) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, any exchange differences resulting from the translation of a net investment in foreign companies and loans and other instruments in foreign currency designated as hedges of those investments are taken to equity. When these investments are sold, such exchange differences are recognised in the income statement as part of the profit or loss on the sale.

2.5. Property, plant and equipment

Property, plant and equipment are recognised at cost less depreciation and cumulative impairment losses, except for land which is presented net of impairment losses.

Cost includes the expenses directly attributable to purchases of property, plant and equipment.

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

No depreciation is charged on land. The depreciation of other assets is calculated on a straight-line basis over their estimated useful lives and their residual values. The estimated useful lives of the various asset categories are as follows:

Building and industrial premises	25 - 50 Years
Plant and machinery	5 - 10 Years
Complex and general plants	12 - 17 Years
Furnishings and office equipment	10 Years
Computer processing equipment	4 Years
Vehicles	7 Years
Other fixed assets	7 - 10 Years

The residual value and useful lives of assets are reviewed, if necessary, at each balance sheet date.

When an asset's carrying value exceeds its estimated recoverable value, carrying value is reduced immediately to the recoverable amount.

Gains and losses on the sale of property, plant and equipment are calculated by comparing the revenue obtained with the carrying value and are included in the income statement. The work carried out by the Company for its own fixed assets is stated and production cost and is recorded as income in the profit and loss account.

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

The cost may also include gains or losses on qualified cash flow hedges relating to acquisitions of PPE denominated in foreign currency that have been transferred from equity.

2.6. Intangible assets

Goodwill

Goodwill is the excess of acquisition cost over the fair value of the Group's shareholding in the identifiable net assets of the subsidiary or associate acquired at the acquisition date. The goodwill relating to acquisitions of subsidiaries is included in intangible assets. The goodwill relating to acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and is carried at cost less cumulative impairment losses. Gains and losses on the sale of a company include the carrying value of goodwill related to the company sold.

Goodwill is assigned to cash generating units (CGUs) in order to test for impairment losses. The amount recoverable from a CGU is determined on the basis of calculations of value in use or its fair value less costs to sell, the higher between the two. These calculations use cash flow projections based on financial budgets approved by management that cover a five year period. Cash flows beyond this five-year period are extrapolated by using constant growth rates.

Software

Software licences acquired are capitalised on the basis of the costs incurred in their acquisition and preparation for the use of the specific program. These costs are amortised over the assets' estimated useful lives (4 years).

Expenses relating to software development or maintenance are recognised when incurred. Costs directly related to the production of single identifiable computer programs controlled by the Group and which will probably generate economic benefits in excess of costs for more than one year are recognised under intangible assets. Direct costs include costs relating to employees developing the software and an appropriate percentage of general expenses.

Computer program development costs recognised as assets are amortised over the programs' estimated useful lives.

Research and development expenses

Research expenses are recognised as an expense when incurred. The costs incurred on development projects are recognised as intangible assets when it is likely that the project will be a success, bearing in mind its technical and commercial viability, and when its costs may be reliably estimated and it is probable that the development project will generate future financial profits.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

Development expenses that do not comply with the above requirements are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent years. Development costs are amortized as from the start of operation on a straight-line basis over the period in which profits are expected to be generated.

The subsidies received for research and development projects are recorded in the income statement in accordance with the recognition criteria applied to the research and development expenses in the profit and loss account.

Concessions

Concessions referred to administrative authorization granted by the municipality of Huerca Overa (Almeria) to build and subsequently operate a parking lot for a 30 year period. The accounting treatment for these assets is established in broad terms in accordance with the draft IFRIC D12, D13 and D14 and the cost of construction is recorded under intangible assets and the profit from the construction will be recognised based on the extent of advancement. Once the assets covered by the concession begin to be operated the amounts received from parking lot users will be recognised as revenues, and the operating expenses will be recognised as an expense for the year and the amortisation of the intangible assets will be stated on a straight-line basis over the term of the concession. The yield obtained from the project will be reviewed at each closing to evaluate whether or not there is any indication of any loss of value that may arise due to the assets being unrecoverable with respect to the revenues generated through their operation.

2.7. Impairment of assets

Assets with indefinite useful lives and goodwill are not subject to depreciation/amortisation and are tested annually for impairment losses. The Group does not carry any asset with an indefinite useful life in the balance sheet. Goodwill is reviewed on an annual basis by performing an impairment test.

The Group reviews the assets subject to depreciation at each closing to verify whether or not there are any events of changes in circumstances that indicate that the carrying value may not be recoverable.

An impairment loss is recognised when the carrying value for the asset exceeds its recoverable value. The recoverable amount is the higher of fair value of an asset less selling costs and value in use. Impairment losses assigned to goodwill are not reversed.

For the purposes of evaluating the impairment of assets, these are grouped under Cash Generating Units, i.e. the lowest level at which separate cash flows may be identified. The impairment loss is recognised in the income statement.

The method used to carry out and impairment test at the Cash Generating Unit level is described in Note 8.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

2.8. Financial assets

The Group classifies investments in the following categories: financial assets at fair value through profit or loss, loans and accounts receivable, investments that are to be held to maturity and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management establishes the classification of investments at the time of their initial recognition and reviews the classification at each reporting date. At 31 December 2005 the Group does not carry any held to maturity investments.

Acquisitions and disposals of investments are recognised at the trading date, i.e., on the date 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

Investments are written off when the rights to receive cash flows from them have expired or have been transferred and the Group has transferred substantially all the risks and advantages deriving from ownership.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets acquired for trading and those financial assets designated at fair value through profit or loss at the time of initial recognition. A financial asset is classified under this category if it is mainly acquired for sale in the short term or if it is thus designated by management. Derivatives are also classified as acquired for trading unless they are designated as hedging instruments. Assets in this category are classified as current assets if they are held for trading or are expected to be realised within 12 months of the balance sheet date. These financial assets are subsequently recorded at their fair value when initially recognised. Realised and unrealised gains and losses resulting from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the year in which they arise.

Loans and other receivables

Loans and other receivables and accounts receivable are non-derivative financial assets involving fixed or determinable payments, which are not listed on an active market. They arise when the Group supplies money, goods or services directly to a debtor and does not intend to trade with the account receivable. They are included in current assets except for assets maturing in more than 12 months of the balance sheet date which are classified as non-current assets. This category includes deposits paid to third parties. Loans and accounts receivable are included under trade and other receivables in the balance sheet.

Loans and receivables are stated at their amortised cost in accordance with the effective interest rate method.

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

Available-for-sale financial assets

Available-for-sale financial assets are not classified as derivatives designated in this category or not classified in other categories. They are included in non-current assets unless management intends to sell the investment within 12 months of the balance sheet date. These financial assets are subsequently recorded at their fair value when initially recognised. Unrealised gains and losses resulting from changes in the fair value of non-monetary instruments classified as available for sale are recognised in equity. When instruments classified as available for sale are sold or are impaired, the cumulative fair value adjustments are included in the income statement as losses or gains on the instruments in question.

The fair values of quoted investments are based on current purchase prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using measurement techniques which include the use of recent transactions between knowledgeable willing parties relating to other instruments which are substantially identical and the analysis of discounted cash flows. In the event that none of the techniques mentioned above may be used to estimate fair value, the investments are stated at their acquisition cost less any impairment losses.

At the balance sheet date, the Group assesses whether there is objective evidence of impairment losses with respect to a financial asset or group of financial assets. For equity instruments classified as available for sale, in order to determine whether there are impairment losses, it will be necessary to examine whether there is a significant or protracted decline in the fair value of the securities to below cost. If there is any evidence of this type for available-for-sale financial assets, the cumulative loss determined as the difference between the acquisition cost and current fair value, less any impairment loss in that financial asset previously recognised in results is eliminated from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.9. Inventories

Inventories record the cost of fixed-price engineering projects and the cost of developing real estate assets for sale as well as the cost of some raw materials waiting to be assigned to specific projects. Inventories are measured at the lower of cost and net realisable value. The cost is calculated at acquisition or direct production cost. The cost of inventories includes design costs, raw materials, direct labour, other direct costs and manufacturing overhead (based on normal operating capacity) but excludes interest costs. The net realisable value is the estimated selling price in the ordinary course of business, less applicable variable cost of sales.

2.10. Trade receivable

Trade accounts receivable are initially recognised at fair value and subsequently at amortised cost in accordance with the effective interest rate method, less the provision for impairment losses. A

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

provision is recorded for impairment losses on trade receivables when there is objective evidence that the Group will be unable to collect all amounts owed in accordance with the original terms of the receivable. The amount of the provision is the difference between the carrying value of the asset and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.11. Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits at credit institutions, other short-term highly liquid investments with an original maturity of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are classified as borrowings under current liabilities.

2.12. Share capital

Share capital is represented in full by ordinary shares classified under equity.

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

Treasury shares acquired by the parent company are stated as a deduction from equity attributable to the Company's shareholders until written off, reissued or sold. The original acquisition cost, the compensation received on their sale and other movements are recorded as changes in equity, net of any direct incremental transaction cost and the relevant tax effects.

2.13. Government grants

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

Operating related to costs are deferred and recognised in the income statement over the necessary period to match them to the costs which it is intended to cover.

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

2.14. Borrowings

Borrowings are recognised initially at fair value, net of the direct costs incurred in the transaction. Borrowings are subsequently measured at amortised cost. Any differences between the funds obtained (net of the necessary costs incurred in their obtainment) and repayment value are recognised in the income statement over the life of the debt in accordance with the effective interest rate method.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

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

Interests costs and other costs incurred to obtain borrowings are charged to the income statement on an accrual basis.

2.15. Deferred income taxes

Deferred taxes are calculated in accordance with the liability method on the temporary differences between the tax bases of assets and liabilities and their carrying values in the consolidated annual accounts. However, if the deferred taxes arise from the initial recognition of a liability or an asset on a transaction other than a business combination that at the time of the transaction has no effect on the tax gain or loss, they are not accounted for. The deferred tax is determined using tax rates approved or about to be approved at the balance sheet date and which are expected to be applied when the corresponding deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised insofar as future tax profits will probably arise against which to offset the temporary differences.

2.16. Employee benefits

Pension and retirement obligations

Some Group companies record obligations with employees through defined contribution pension plans and other defined benefit retirement obligations.

A defined benefit plan is a pension plan under which the amount of the benefit that will be received by an employee at the time of retirement is defined, normally on the basis of one or more factors such as age, years or service or remuneration.

A defined contribution plan is a pension plan under which the Group makes fixed contributions to an independent entity and will not have any legal or implicit obligation to make additional contributions if the fund does not hold sufficient assets to pay all employees the benefits for current year and prior year services.

The liability recognised in the balance sheet with respect to defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for actuarial gains and losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries in accordance with the projected unit credit method. The present value of the obligation is determined by discounting the estimated future cash flows at interest rates on high quality corporate bonds denominated in the currency in which the benefits will be paid and maturities similar to those of the relevant obligations.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

Actuarial gains and losses that arise from adjustments applied due to experience and changes in the actuarial assumptions are charged and credited, as appropriate, in the profit and loss account for each year.

Past service costs are recognised immediately in the income statement unless changes in the pension plan are conditional on the employees continuing in employment for a specific time period (consolidation period). In this case, past service costs are amortised on a straight-line basis over the consolidation period.

Defined contributions made to plans are recognised as employee benefits when they accrue and are recorded as an expense for the year.

Other long-term compensation obligations

Some Group companies record an implicit obligation to provide defined benefits which are considered to be long-term compensation. The right to this type of benefit is normally subject to the condition of the employee remaining at the company during a certain number of years. The expected costs for these benefits accrue over the employment life of employees in accordance with an accounting method similar to those applied to defined benefit pension plans. Actuarial gains and losses that arise from adjustments applied due to experience and changes in the actuarial assumptions are charged and credited, as appropriate, in the profit and loss account for each year. These obligations are valued on an annual basis by qualified independent actuaries.

Severance indemnities

Severance indemnities are paid to employees as a result of the Company's decision to terminate employment contracts before the normal retirement age or when employees voluntarily agree to resign in return for such benefits. The Group recognises these benefits when it has demonstrably undertaken to make present workers redundant in accordance with a detailed formal plan which cannot be withdrawn or to provide severance indemnities as a result of an offer to encourage employees to take up voluntary redundancy. Benefits which are not going to be paid within 12 months of the balance sheet date are discounted at present value.

2.17. Provisions

The Group recognises provisions when it has a present legal or implicit obligation as a result of past events, it is more likely than not that resources will have to be applied to settle the obligation and the amount may be reliably estimated.

Provisions for future operating losses are not recognised.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

Provisions are recorded at the best estimate of the liability payable by the Group, bearing in mind the effects of exchange rate fluctuations for those denominated in foreign currency and the value of money over time, if the effect is significant.

2.18. Revenue recognition

Revenues include the fair value relating to sales of assets and services, net of VAT, returns and discounts, following the elimination of intragroup sales.

Administration agreements

Sales of services referred to administration agreements and are recognised in the financial year in which the services are rendered based on an extent-of-execution basis referenced to the actual service provided. The price payable by the final customer consists of the direct costs incurred, to which a fixed margin is applied for indirect costs and company profit.

Turnkey engineering agreements

When the profit from any agreement cannot be reliably estimated, the relevant revenues are recognised only up to the limit of the costs incurred on the agreement that are likely to be recovered.

When the profit from any agreement may be reliably estimated and it is likely that it will be profitable, the revenues are recognised over the term of the agreement. The revenue recognition criteria for turnkey engineering agreements vary based on the estimate of profit from the agreement.

When it is likely that the agreement cost will exceed the total revenues obtained, the expected loss is immediately recognised as an expense.

The Group uses the percentage completed method to calculate the adequate amount to be recorded in any certain period. The expense of completion is calculated by referencing the agreement costs incurred at the balance sheet date expressed as a percentage of the total estimated cost for each agreement. The costs incurred during the year with respect to future agreement activities are excluded from the agreement costs used to determine the percentage of completion.

Revenues from agreements originating from claims made by the Group against customers or from changes in the scope of the project concerned are included as revenue from the agreement when they are approved by the final customer or when it is likely that the Group will receive resources.

The Group presents as a receivable the gross amount owed by customers for all work performed under current agreements for which the costs incurred plus recognised profits (less recognised losses) exceed the amount of partial invoices. Partial invoices not yet paid by customers and withholdings are included under Trade and other receivables.

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(In thousands of euros)

2. Summary of the main accounting policies (continued)

The Group presents as a liability the gross amount owed by customers for all work performed under current agreements for which the partial invoices exceed the costs incurred plus recognised profits (less recognised losses).

The costs related to the presentation of bids for construction contracts in Spain and abroad are expensed in the profit and loss account at the time and incurred when it is not likely or it is not known at the date incurred that the contract will be awarded to the Group. The costs for presenting bids are included in the cost of the contract when it is likely or known that the contract will be obtained, or when it is known that these costs will be reimbursed or included in the revenues originating from the contract.

2.19. Derivative financial instruments

Financial derivatives are recognised initially at their fair value at the date the relevant agreement is concluded and subsequently they are adjusted to fair value. Recognising the gain or loss resulting from fluctuations in fair value in each year depends on whether or not the derivative is designated as a hedging instrument and, if this is the case, the nature of the hedged item, The Group designates certain derivatives as cash flow hedges for future transactions.

Derivatives embedded in other non-financial instruments are recorded separately as derivatives only when their financial characteristics and inherent risks are not strictly related to the instruments in which they are embedded and whole item is not being recorded at fair value.

Note 11 includes information regarding the fair value of several derivatives employed in hedging operations. The consolidated statement of changes in equity shows the movements in the hedging reserve recorded under equity.

Derivatives not qualifying for hedge accounting

In the case of financial derivatives not designated as hedging instruments, or which cannot be designated as such, the fluctuations in fair value at each valuation date are recognised as revenue or an expense in the profit and loss account.

Cash flow hedges

At the start of the relevant transaction the Group documents the relationship between hedging instruments and the hedged items, in addition to the objective of its risk management and the strategy to be followed by the various hedging operations. The Group also documents its evaluation, both at the start of the hedge as well as on a continuous basis thereafter, of whether or not the derivative used in the hedging transaction is efficient when offsetting changes in cash flows from the hedged assets.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

The efficient part with respect to changes in fair value of the derivatives designated and which are classed as cash flow hedges are recognised in equity within a specific reserve. The gain or loss relating to the inefficient part is recognised immediately in the income statement.

Amounts accumulated in equity and are taken to the income statement in the year in which the hedged item will affect the profit or the loss. However, when the forecast transaction which is hedged results in the recognition of a non-financial asset or liability, the gains or losses previously deferred in equity are transferred from equity and included in the initial cost measurement of the asset or liability involved.

When the hedging instrument matures or is sold or when a hedging transaction ceases to comply with the requirements for the application of hedge accounting, the gains or losses in equity to that time will continue forming part of the same and will be recognised when the transaction advanced is finally recognised in the income statement. However, if it ceases to be likely that this transaction will take place the gains or losses that are accumulated in equity are immediately taken to the income statement.

Fair value hedges

Changes in the fair value of designated derivatives that qualify to be classified as hedging operations at fair value are stated in the income statement, together with any change in the fair value of the asset or liability being hedged.

2.20. Fair value

Fair value is the amount at which a financial instrument is exchanged between educated parties in a transaction under normal market conditions.

The fair value of financial instruments listed on active markets is based on year end bid market prices.

The fair value of financial instruments that are not listed on an active market is calculated in accordance with valuation techniques. The Group mainly uses valuation techniques applying information from recent transactions carried out in accordance with the market conditions existing for similar instruments and a discount of estimated cash flows.

2.21. Leasing

Leasing contracts of fixed assets in which the Group is the lessee and substantially it has all the risks and rewards of ownership of the assets are classed as financial leases. Financial leases are recognised at the beginning of the contract at the lower between the fair value of the leased asset and the present value of the lease payments included any option to buy the asset. For every lease payment the reduction of the debt and financial charge are separately disclosed in a way that the interest rate

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

over the outstanding debt is always constant. The amount payable arising from the leasing contract net of the financial charge is recognised within non current-liability with the exception of those due within 12 months. The interest costs are charged to the income statement over the term of the contract in order to obtain a constant interest rate over the balance of the outstanding debt at each balance sheet date. The purchased fixed assets under financial leases are depreciated over the useful life of the asset.

Leases contracts where the lessor keeps a considerable part of the risks and rewards of ownership are classed as operating leases. The amounts paid under an operating lease contract (net of any incentive received from the lessor) are charged to the income statements on a straight line basis over the term of the lease contract

2.22. Dividend distribution

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

2.23. Environment

Given the activity in which the Group companies are involved, they have no environmental liabilities, expenses, assets, provisions or contingencies that could be significant with respect to its equity, financial situation and results. For this reason no specific breakdowns are provided in these Notes to the annual accounts regarding environmental information.

2.24. New standards and IFRIC interpretations

THE IASB and IFRIC have approved and published, respectively, certain accounting rules and improvements to the rules that are already in force, as well as IFRIC interpretations that enter into force on 1 January 2006 or later. Management's evaluation of the impact of these rules and interpretations on the Group in the future is summarised below:

IFRS 7, Financial instruments: Disclosure

IFRS 7 is applicable to the years commencing 1 January 2007. The Group has chosen not to apply this rule early. The application of IFRS 7 will not give rise to significant economic effects on the Group's annual accounts.

IFRIC 4, Determining whether an arrangement contains a lease

IFRIC 4 is mandatory for the years commencing as from 1 January 2006. The Group has chosen not to apply IFRIC 4 early and it will therefore apply this interpretation to the consolidated annual accounts for 2006 as and transitional provisions foreseen in IFRIC 4. The Group will thus apply

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

2. Summary of the main accounting policies (continued)

IFRIC 4 based on the events and circumstances existing at 1 January 2005. Group management does not expect the implementation of IFRIC 4 to lead to any change in the manner in which the Group currently records lease arrangements.

IAS 1 (Revised August 2005). Capital disclosures

In August 2005 an amendment to IAS 1 was approved and will enter into force for the years commencing on 1 January 2007. The Group will apply this amendment starting with the financial year that will commence 1 January 2007, and do not expect significant economic effects from its application.

IAS 19 (Revised December 2004), Employee benefits—Actuarial gains and losses. Group plans and disclosures.

The amendment to IAS 19 that permits actuarial differences to be recognised in a separate equity account will enter into force in the financial years commencing as from 1 January 2006. The Group has decided not to apply this amendment early and has not yet decided whether or not this option will be applied once it enters into force.

IAS 39 (Revised April 2005), Cash flow hedges of forecast Intragroup transactions

This modification will take effect on 1 January 2006. The Group has decided not to apply this amendment early and it is not expected to have a significant effect on the Group's consolidated annual accounts.

IAS 39 (Revised June 2005), Fair value option

The amendment to IAS 39 concerning the fair value option for certain financial instruments will enter into force in the financial years commencing as from 1 January 2006. The Group estimates that the application of this amendment will not give rise to significant effects.

IAS 39 and amendments to IFRS 4, financial guarantees

The amendments to IAS 39 and IFRS 4 in relation to the accounting treatment of financial guarantees contracts intend to ensure that the issuers of the financial guarantees reflect the liabilities in their balance sheets. Such amendments will be effective in the financial periods starting 1 January 2006. The Group has decided not to apply this amendment early as it is still analysing the possible impacts following its application, that in any case are not deemed to be significant.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

3. Financial risk management

3.1. Financial risk factors

The Group's activities are exposed to some of the usual financial risks: market risk (including currency risk, fair value interest rate risk and price risks), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the uncertainty of financial markets and attempts to minimise and compensate for the potential adverse effects on the Group's financial yields. The Group essentially uses hedges such as derivatives to cover the main risks.

Risk management is centralised and controlled by the corporate Finance Management area in accordance with policies approved by the Board of Directors. This area identifies, evaluates and covers financial risks in close cooperation with the Group's operating units and with the express authorisation of General Management. Management follows written policies when managing overall risk and specific areas such as currency risk.

a) Market risk

a.1) Currency risk

The Group operates in the international arena and therefore it is exposed to currency risks on transactions denominated in foreign currency, particularly the USD or, to a much lesser extent, to currencies tied to the USD. There are residual minor risks concerning suppliers in Japanese yen or UK pounds, in particular. Currency risk derives from future transactions, recognised assets and liabilities and net investments in foreign operations.

To control the currency risk that derives from future transactions and recognised assets and liabilities, Group companies use term agreements, in accordance with the hedging policy in place negotiated by the Group treasury area. Currency risk arises when the future transactions and recognised assets and liabilities are denominated in a currency other than the Company's operating currency. The Group treasury area is responsible for managing the net foreign currency position using external term foreign currency contracts.

For the purposes of disclosing financial information, each subsidiary designates contracts with the Group treasury area such as fair value or cash flow hedges, as appropriate. In turn, at the Group level external currency contracts are designated as currency hedges covering certain assets, liabilities or future transactions.

The Group's risk management policy is to cover most highly certain forecast transactions known to the Group (mainly concerning exports) in each of the major currencies during the entire forecast project. In each new project with a currency risk contract the percentage of the risk to be hedged changes with respect to forecast sales in each of the major currencies. These hedges are classified as highly probable forecast transactions for hedge accounting purposes.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

3. Financial risk management (continued)

a.2) Price risk

The Group is not exposed to price risk with respect to securities since no significant investments are held by the Group. The Group is partially exposed to commodity price risks, basically metals and oil, to the extent that they affect the price of equipment and manufactured materials used in construction projects. In general these impacts are efficiently transferred to selling prices by all similar contractors that operate in the same sector. The Group reduces and mitigates price risks with the policies established under the instructions issued by General Management, which basically consist of accelerating or slowing the rate of placements and selecting the currencies and countries of origin.

b) Credit risk

The Group does not have significant concentrations of credit risk in any of the sectors in which it operates. The Group has policies to ensure that its products and services are sold to customers with an adequate credit history. Group's customers are of recognised national and international solvency. Transactions involving derivatives and spot operations are only carried out with healthy financial institutions. The Group has policies in place to limit the amount of risk held with respect to any financial institution.

c) Liquidity risk

The prudent management of the liquidity risk entails holding sufficient cash and negotiable securities, as well as available financing through sufficient credit facilities and maintaining the capacity to liquidate market positions. Given the dynamic nature of the underlying businesses, the Group's Treasury Department has the objective of maintaining flexible financing through available credit facilities. There are some small working capital lines of credit for specific projects, but given the liquidity position and the slightly positive or neutral cash flow of most of the Group's projects, the liquidity risk is estimated to be very low.

d) Cash flow interest rate risk and fair value risk

Since the Group does not hold any significant interest-bearing assets, the revenues and cash flows from the Group's operating activities are largely unaffected by changes in market interest rates. As a result there is no relevant interest rate risk.

4. Accounting estimates and judgements

The preparation of the consolidated annual accounts in accordance with IFRS-EU requires that management make estimates and judgments that may affect the accounting policies adopted and the amount of the assets, liabilities, revenues, income and breakdowns related to these policies. The estimates and assumptions made are based, among other things, on past experience and other events considered to be reasonable in accordance with the events and circumstances taken into consideration

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

4. Accounting estimates and judgements (continued)

at the balance sheet date, the result of which is the basis of judgment on the carrying amount of assets and liabilities that cannot be immediately calculated in another way. Actual results may be different than forecast in the estimates.

Estimates and judgements are assessed on an on-going basis and are based on historic experience and other factors, including expectations of future events which may be considered reasonable in the circumstances.

Accounting estimates are considered to be significant if the nature of the estimates and judgments is material and if their impact on the Group's financial position or operating yields is material. The main estimates applied by Group management are as follows:

Goodwill impairment test

The Group verifies annually whether there is an impairment loss in respect of goodwill, in accordance with the accounting policy described in Note 2.7. The recoverable amounts in cash generating units have been determined based on calculations of the value in use. These calculations require the use of estimates.

Income tax and deferred tax assets

The calculation of income tax requires interpretation of applicable tax legislation by the various Group companies. There are also several factors mainly, but not exclusively, linked to changes in tax laws and changes in the interpretation of tax laws already in force, which require the application of estimates by Group management.

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

Useful lives of property, plant and equipment and intangible assets

Group management estimates the useful lives and relevant depreciation and amortization charges for its property, plant and equipment and intangible assets, respectively. The useful lives of assets are estimated in accordance with the period over which the fixed asset concerned will generate profits. At each closing the Group reviews the useful lives of assets and if the estimates differ from those made previously the effect of the change is recorded on a prospective basis as from the year in which the change is made.

Employee benefits

The present value of employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a series of assumptions. The assumptions made to the cause and the employee benefit obligation include a discount rate and a growth rate for salaries and other

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

4. Accounting estimates and judgements (continued)

benefits. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 23.

Any change in these assumptions will have an effect on the expense amount and the liability for employee obligations.

Receivables and financial assets

The Group makes estimates relating to the collection of trade receivables for those projects affected by controversies to be resolved or litigation in progress deriving from acceptance issues regarding executed work or the failure to comply with contractual clauses linked to the yield on assets delivered to customers. In addition, the Group makes estimates to evaluate the recoverability of available-for-sale financial assets based mainly on the financial health and short-term business prospects of the investee company.

Provisions

Provisions are recognised when it is probable that a present obligation, resulting from past events, will require the application of resources and when the amount of the obligation may be reliably estimated. To comply with the requirements of accounting rules significant estimates are necessary. Group management makes estimates, evaluating all relevant information and events, of the probability of a contingency and the amount of the liability to be settled in the future.

Revenue recognition

Revenue recognition criteria applied by the Group is based on the percentage method based on the extent of completion. The extent of completion is calculated as the percentage of costs incurred with respect to the contract compared with total estimated costs required to fulfil the contract. This revenue recognition method is applied only when the result from the contract may be reliably estimated and it is likely that the contract will generate profits. If the result from the contract may not be reliably estimated, revenues are recognised to the extent that costs are recovered. When it is likely that the costs relating to a contract exceed revenues from that same contract, the loss is immediately recognised as an expense. When applying the percentage of completion method the Group makes significant estimates relating to the total costs necessary to fulfil the contract. These estimates are reviewed and are evaluated regularly in order to verify whether or not they generated a loss and if it is possible to continue to apply the percentage completion method or to re-estimate the expected margin from the project. During the development of a project the Group also estimates the probable contingencies relating to the increase in the total estimated cost and changes the manner of revenue recognition accordingly.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

4. Accounting estimates and judgements (continued)

Fair value of unlisted financial instruments

The Group calculates the fair value of financial instruments (financial assets and liabilities) that are not traded on an active market through estimates made on the selection of methods and assumptions that are mainly based on existing market conditions at each balance sheet date. The Group has used analyses of discounted cash flows for some available-for-sale financial assets that were not traded on active markets and other objective evidence of the fair value of the instrument concerned, such as recent transactions of reference or the value of purchase or sale options existing at the balance sheet date.

Warranty claims

The Group generally offers 24 or 36 month warranties on its work and services. Management estimates the relevant provision for future warranty claims based on past information regarding such claims, as well as recent trends that may suggest that past information regarding costs may be different than those arising in future claims.

5. IFRS-EU transition

5.1. IFRS-EU transition basis

5.1.1. Application of IFRS 1

The consolidated annual accounts at 31 December 2005 are the first consolidated annual accounts prepared under IFRS-EU. Therefore the Group has applied IFRS 1 in their preparation.

The IFRS-EU transition date in TÉCNICAS REUNIDAS, S.A. is 1 January 2004. The Group prepared its opening balance sheet in accordance with IFRS-EU at that date.

In the preparation of these first consolidated annual accounts under IFRS-EU, particularly IFRS 1, the Group has applied all mandatory exceptions and some of the optional exemptions to the retroactive application of IFRS-EU.

5.1.2. Exemptions to retroactive application selected by the Group

TÉCNICAS REUNIDAS, S.A. has opted to apply the exemptions to the total retrospective application of IFRS-EU which are set out below.

Business combinations

TECNICAS REUNIDAS, S.A. has applied the exemption contained in IFRS 1 for business combinations. Therefore the business combinations that took place prior to the transition date, 1 January 2004, have not been restated.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

5. IFRS-EU transition (continued)

Employee benefits

TECNICAS REUNIDAS, S.A. has chosen to recognise all accumulated actuarial gains and losses at 1 January 2004.

Cumulative exchange differences

TÉCNICAS REUNIDAS, S.A. has elected to measure cumulative exchange differences prior to 1 January 2004 at zero value. This exemption has been applied to all subsidiaries in accordance with IFRS 1.

Financial assets and financial liabilities

The Group has reclassified various securities as available for sale investments and financial assets at fair value through profit and loss.

Initial measurement of financial assets and liabilities at fair value

The Group has not applied the exemption envisaged in revised IAS 39 with respect to the initial recognition at fair value through profit and loss of financial instruments for which there is no active market. This exemption is therefore not applicable.

5.1.3. Exceptions to retrospective application applied by the Group

TÉCNICAS REUNIDAS, S.A. has applied the following mandatory exceptions to the retrospective application of IFRS-EU:

Write-off of financial assets and liabilities

Financial assets and liabilities written off before 1 January 2004 have not been recognised again under IFRS-EU.

Hedge accounting

Management has stipulated that hedge accounting be applied as from 1 January 2004.

Estimates

Estimates under IFRS-EU at 1 January 2004 should be consistent with the estimates made at the same date under previous accounting principles unless there is evidence that such estimates were erroneous.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

5. IFRS-EU transition (continued)

Assets held for sale and discontinued operations

Management applies IFRS 5 on a retrospective basis from 1 January 2004. Any asset held for sale or which is a discontinued operation is recognised under IFRS 5 solely from 1 January 2004. The Group had no assets that complied with the criteria to be regarded as held for sale in the reporting period. There has been no need to include any adjustment.

5.2. Reconciliation of IFRS-EU to local GAAP

The following reconciliations quantify the impact of IFRS-EU transition.

The reconciliation provides a view of the transition impacts relating to:

- Equity at 1 January and 31 December 2004 (Note 5.2.1)
- Results for the year ended 31 December 2004 (Note 5.2.1.)
- The balance sheet for 2004 (Note 5.2.3)
- The income statement for 2004 (Note 5.2.4)

5.2.1 Summary of equity adjustments

	Equity at 1 January 2004 (In thousands of euros)	Note 5.2.2	Equity at 31 December 2004 (In thousands of euros)	2004 profit attributable to the parent company
Annual accounts in accordance with GAAP	121,143		142,913	30,073
Write-off of R&D expenses	(1,446)	a	(1,618)	(172)
Elimination of bid presentation costs	(2,621)	b	(5,945)	(3,324)
Reversal of subsidies related to R&D projects	723	c	504	(219)
Elimination of software developed internally	(1,741)	d	(1,393)	348
Recognition of deferred tax assets not previously recognised	3,418	e	3,338	(80)
Recognition of derivatives financial instruments	8,051	f	(1,167)	(4,405)
Other adjustments	(257)	g	(1,316)	(1,058)
Deferred tax effect of above adjustments	1,858	h	3,285	1,422
Reclassification of minority interests	945	i	1,135	—
Treasury shares and other declining securities	(170)	j	(39)	—
Recognition of gains on financial investments	265	k	835	575
Annual accounts in accordance with IFRS-EU	130,168		140,532	23,160

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(In thousands of euros)

5. IFRS-EU transition (continued)

5.2.2 Explanation of the effect of the transition to IFRS-EU

Below is an explanation of the most significant adjustments included in the balance sheet and income statement at 1 January 2004 and 31 December 2004.

a) Write-off of R&D expenses

The adjustment represents the write-off of expenses for research and development projects that are not deemed to qualify for recognition under the requirements of IAS 38. The effect on the profit and loss account derives from new additions in the local accounts and the write-off of the amortisation charge.

b) Write-off of bid presentation costs

In accordance with IAS 11 the costs necessary to hedge a contract are included in the contract cost if it is likely that the contract will be awarded. The company has considered recognising bid presentation costs directly in the profit and loss account. The effect on the profit and loss account is the net result of movements during the year.

c) Reversal of subsidies related to R&D projects

Official subsidies recorded as liabilities that are linked to research and development projects that under IFRS-EU are recognised as an expense have been taken to profit and loss in accordance with the method used to recognise the associated cost. The effect on profits derives from the reversal of revenues in the local accounts.

d) Write-off of software developed internally

Software projects developed internally by the Group have been recorded directly in the income statement as not all requirements established by IAS 38 for the recognition of internally generated assets are met. The effect on the profit and loss account derives from the reversal of the amortisation charge recorded under local principles.

e) Recognition of deferred tax assets

At the transaction date there were deferred tax assets which, based on GAAP, were not recognised since they had been generated prior to the entry into force of the rule that regulates the recognition of these assets in the balance sheet. Under IFRS-EU an analysis has been performed regarding the recoverability of these assets and they have been recognised in the balance sheet since the Group considers that that will be recovered within a reasonable time.

f) Recognition of derivatives financial instruments

This adjustment records the recognition in the balance sheet of derivative financial instruments contracted by the Group to over foreign currency positions. The adjustment records both derivative instruments designated as cash flow hedges and derivative instruments that are not classed as hedges as

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

5. IFRS-EU transition (continued)

they are ineffective or because they have not been designated as hedging instruments. The effect on the profit and loss account derives from the year-end measurements made in accordance with IFRS-EU.

g) Other adjustments

This caption records minor adjustments at 1 January 2004 that mainly relate to the adjustment of expenses that are not deemed to qualify for recognition under IFRS-EU, which had a 213 thousands of euros effect on Intangible assets. The balance of Other adjustments at 31 December 2004 represented the variation in profits obtained by associates due to the 660 thousands of euros effect of adapting to IFRS-EU and an adjustment to the corrected margin for some contracts originating from adjustment due to applying uniform accounting policy totalling 568 thousands of euros.

h) Tax effect of the adjustments

All the adjustments originating due to the application of IFRS-EU have given rise to timing differences between the carrying amount of assets and liabilities and the relevant tax base, leading to the recognition, if appropriate, of deferred tax assets and liabilities. Those companies that, due to their tax system, are unlikely to recover deferred tax assets have not recorded the tax effect of the IFRS-EU adjustments. The tax effect of the main IFRS-EU transition adjustments are as follows:

	1 January 2004	31 December 2004
	(In thousands of euros)	
Write-off of R&D expenses	506	566
Write-off of bid presentation costs	917	2,081
Reversal of subsidies related to R&D projects	(253)	(176)
Write-off of software developed internally	609	488
Tax effect of other adjustments	79	326
	<u>1,858</u>	<u>3,285</u>

i) Reclassification of minority interests

In accordance with IAS 27 the amount relating to minority interests is classified under equity.

j) Treasury shares

Treasury shares are classified under GAAP as an asset while under IFRS-EU they are presented as a deduction to equity.

k) Recognition of gains on financial investments

The adjustment originates due to the measurement of financial investments made by Pegasides SICAV, S.A. at fair value instead of historic cost.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

5. IFRS-EU transition (continued)

Reclassifications without effect on equity

The opening balance sheet at 1 January 2004 includes reclassifications without any impact on equity. The main reclassifications refer to the reclassification of financial investments totalling 116,402 thousands of euros under the caption Cash and the reclassification of 7,816 thousands of euros recorded as short-term deferred income tax to the long-term. Other minor reclassifications refer to lease and inventory contracts. The calculation of actuarial gains and losses did not have an impact on equity as the Company recorded a provision that covered this item by a similar amount under GAAP.

5.2.3 Reconciliation of the balance sheet at 31 December 2004

	Note 5.2.3	GAAP	Effect of transition to IFRS-EU	IFRS-EU
		(In thousands of euros)		
ASSETS				
Non-current assets				
Uncalled share capital		39	(39)	—
Formation expenses		1	(1)	—
Property, plant and equipment		9,609	599	10,208
Goodwill		999	243	1,242
Other intangible assets	a	6,251	(3,016)	3,235
Investments in associates		10,011	411	10,422
Available-for-sale financial assets		314	—	314
Other assets		1,255	—	1,255
Deferred expenses		10	(10)	—
Deferred tax assets	b	—	19,315	19,315
		28,489	17,502	45,991
Current assets				
Inventories	c	10,876	(8,221)	2,655
Trade and other receivables	d	353,915	(58,387)	295,528
Other accounts receivable	e	10,920	(10,219)	701
Financial assets at fair value through profit or loss	f	110,606	(56,269)	54,337
Derivative financial instruments	g	—	3,867	3,867
Cash and cash equivalents	h	53,544	61,802	115,346
		539,861	(67,427)	472,434
Total assets		568,350	(49,925)	518,425

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

5. IFRS-EU transition (continued)

	Note 5.2.3	GAAP	Effect of transition to IFRS-EU	IFRS-EU
		(In thousands of euros)		
EQUITY				
Capital and reserves attributable to shareholders				
Share capital		5,590	—	5,590
Share premium account		8,691	—	8,691
Other reserves		1,137	—	1,137
Hedging reserve	i	—	1,122	1,122
Cumulative translation difference		(873)	(23)	(896)
Retained earnings		128,368	(4,598)	123,770
Minority interests		—	1,118	1,118
Total equity		142,913	(2,381)	140,532
Minority shareholders		1,135	(1,135)	—
LIABILITIES				
Non-current liabilities				
Borrowings		724	207	931
Other liabilities		3,672	(504)	3,168
Deferred tax liabilities		—	277	277
Retirement benefit commitments		3,324	—	3,324
Provisions for liabilities and charges	j	48,439	(15,275)	33,164
		56,159	(15,295)	40,864
Current liabilities				
Trade payables	k	326,088	(25,068)	301,020
Current tax liabilities		7,061	—	7,061
Borrowings		18,773	—	18,773
Derivative financial instruments	g	—	3,475	3,475
Other payables	l	7,626	(3,829)	3,797
Provisions for liabilities and charges	m	8,595	(5,692)	2,903
		368,143	(31,114)	337,029
Total liabilities		424,302	(46,409)	377,893
Total liabilities and equity		568,350	(49,925)	518,425

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

5. IFRS-EU transition (continued)

The main variations incurred with respect to GAAP and IFRS-EU balances are set out below:

a) Intangible assets

The decrease is mainly due to the write-off of R&D expenses and software developed internally in accordance with the matters described in Note 5.2.1.

b) Deferred tax assets

In accordance with IAS 12 deferred tax assets and liabilities are classified under non-current assets and liabilities. In addition, it includes the effect of the adjustment described in Note 5.2.2.h).

c) Inventories

The differences in the balances shown in this caption are due to the adjustment of bid presentation costs explained in Note 5.2.1 and due to the reclassification of several balance sheet items.

d) Trade and other receivables

	<u>(In thousands of euros)</u>
GAAP balance	353,915
Reclassification of liability provision	(6,338)
Adjustment to balances in foreign currency due to application of hedging accounting	(36,181)
Reclassification of deferred income tax to non-current assets	(12,516)
Other	<u>(3,352)</u>
IFRS balance	<u>295,528</u>

e) Other accounts receivable

The difference in this caption is entirely due to the reclassification of financial assets to maturing in less than three months when previously they had been considered as cash equivalents.

f) Financial assets at fair value through profit or loss

The decrease in this caption are mainly due to the reclassification to of cash totalling 54,470 thousands of euros to Cash and cash equivalents.

g) Financial derivatives

This adjustment entirely consists of the recognition of derivative instruments under assets and liabilities on the balance sheet as is described in Note 5.2.2.

h) Cash and cash equivalents

The change in the balances fundamentally due to considering highly liquid financial assets as cash.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

5. IFRS-EU transition (continued)

i) Hedging reserve

This balance arises due to the application of hedge accounting to foreign currency positions.

j) Provisions for liabilities and charges—non-current portion

The variance in the balance of Provisions for liabilities and charges is due to the reclassification of the provisions mentioned in point d) and the effect of applying hedge accounting to the differences in foreign currency that gave rise to reclassifications and adjustments to the balance for Provisions for liabilities and charges totalling 8,937 thousands of euros.

k) Trade creditors

	<u>(In thousands of euros)</u>
GAAP balance	326,088
Adjustment to foreign currency balances due to the application of hedge accounting	(21,925)
Other	<u>(3,143)</u>
IFRS balance	<u>301,020</u>

l) Other payables

This mainly balance arises due to the adjustments deriving from the application of hedge accounting to foreign currency positions.

m) Provisions for liabilities and charges—current portion

The difference in this caption is mainly due to the effect on Provisions for liabilities and charges-short-term of hedge accounting applied to foreign currency positions totalling 5,172 thousands of euros.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

5. IFRS-EU transition (continued)

5.2.4 Reconciliation of the consolidated income statement for the year ended 31 December 2004

	Note 5.2.4	GAAP	Effect of the IFRS-EU transition	IFRS-EU
		(In thousands of euros)		
Revenues	a	591,943	(35,998)	555,945
Own work capitalised		1,434	2,260	3,694
Difference between opening and closing inventories	b	4,632	(4,061)	571
Raw materials and consumables	c	(344,484)	21,549	(322,935)
Employee benefit expense		(107,995)	(257)	(108,252)
Depreciation and amortisation		(2,994)	527	(2,467)
Transport costs		(224)	—	(224)
Lease and royalty costs		(8,794)	429	(8,365)
Other operating costs	d	(113,858)	9,821	(104,037)
Other operating revenues		3,188	1,407	4,595
Operating profit		22,848	(4,323)	18,525
Net financial income /(expense)	e	2,833	(3,417)	(584)
Share in results obtained by associates		62	(660)	(598)
Amortisation of goodwill on consolidation		(279)	279	—
Profit from ordinary activities		25,464	(8,121)	17,343
Extraordinary profit		133	(133)	—
Profit before taxes		25,597	(8,254)	17,343
Income tax	f	4,626	1,342	5,968
Profit for the year		30,223	(6,912)	23,311
Profit attributed to the parent company		30,073	—	23,160

The main variations incurred in the profit and loss account with respect to GAAP and IFRS-EU balances are set out below:

a) Revenues

The change in revenues is due mainly to the effect of hedge accounting to foreign currency positions, which has an effect totalling approximately 33,907 thousands of euros.

b) Changes in inventories

The change in inventories is principally modified by the effect of the adjustment to bid presentation costs totalling 3,324 thousands of euros.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

5. IFRS-EU transition (continued)

c) Supplies

The change in the caption is entirely due to the effects of applying hedge accounting to foreign currency positions.

d) Other operating costs

The change in the caption is mainly due to the effects of applying hedge accounting to foreign currency positions.

e) Net financial interest /(expense)

	<u>(In thousands of euros)</u>
GAAP balance	2,833
Effect of recognising derivative instruments	(3,236)
Other	<u>(181)</u>
IFRA balance	<u>(584)</u>

f) Income tax

The main effect derives from the tax adjustment of a presentation costs.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

6. Segment reporting

	Oil & Gas		Energy		Other		Not assigned		Group	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	(In thousands of euros)									
Profit by segment										
Revenues	486,629	445,410	123,592	51,543	74,893	58,992	—	—	685,114	555,945
Operating profit	41,162	28,554	4,991	4,430	7,925	7,822	(25,495)	(22,281)	28,583	18,525
Net financial costs (Note 29)									6,837	(584)
Profit sharing in associates	1.159	(695)	79	119	(66)	(22)	—	—	1,172	(598)
Profit before taxes									36,592	17,343
Income tax									5,030	5,968
Profit for year									41,622	23,311
Assets and liabilities by segment										
Assets	431,074	308,044	140,138	17,265	75,854	55,342	198,728	127,352	845,794	508,003
Associates	5,783	4,789	1,900	1,725	3,823	3,889	0	19	11,506	10,422
Total assets	436,857	312,833	142,038	18,990	79,677	59,231	198,728	127,371	857,300	518,425
Liabilities	314,901	153,814	108,130	7,584	23,175	16,425	264,486	200,070	710,692	377,893
Fixed asset investments (Notes 7 and 8)	499	389	—	—	—	—	8,925	4,726	9,424	5,115
Other information by segment										
Depreciation of property, plant and equipment (Note 7)	—	—	—	—	—	—	1,982	1,719	1,982	1,719
Amortisation of intangible assets (Note 8)	—	—	—	—	—	—	730	748	730	748
Impairment of trade receivables (Note 12)	—	2,944	—	—	—	(319)	252	—	252	2,625

Principal format for segment reporting: business segments

At 31 December 2005 the Group is organised into the following business segments: Oil & Gas, Energy and Other. Although the main activities of the Group are construction and engineering services, the Group presents the organisation by the aforementioned business segments as the related risk and rewards, and the specialisation necessary for the executions of the related projects, require this distinction by business segments in order to allow a better understanding of the Group's activities.

The Oil & Gas segment focuses its activities on the execution of engineering, supply and construction services for oil processing operations and for the production and processing of chemicals, as well as, activities related to the entire value chain relating to the production and distribution of natural gas, which are production, treatment, storage and transport.

Activities in the refining sector include the construction of refineries and the refurbishment and expansion of existing refining plants. The type of units designed and built consist of basic refining units as well as conversions and octane improvements. The Group designs and builds auxiliary services and other refining units. Petrochemical activities include the design and construction of plants that produce and process monomers, polymers and plastics, chemical plants and fertiliser units.

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(In thousands of euros)

6. Segment reporting (continued)

Activities in the gas sector, its types of units designed and built mainly relate to the extraction and preliminary treatment of natural gas prior to use in subsequent processes or its preparation for export. The Group is particularly specialized in re-gasification and transport facilities.

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

The segment Other covers operations in the area of infrastructure and industries business,, as well as, only in respect to its assets the financial services neither of which are segments that meet the requirements to be presented separately. In Not Assigned operating profit are included the Group's structure costs

It is worth mentioning that for the reported financial years no inter-segment sales took place

Secondary format for segment reporting: geographical segments

The segments of the group's business operate mainly in the geographical areas of Spain, Middle East, America, Asia and Mediterranean, even though they are managed on a global basis. It is worth mentioning that: a) the geographic segment America mainly includes operations in Chile and Mexico; b) the segment Asia mainly includes operations in China and Vietnam; and c) the geographic segment Mediterranean includes mainly operations in Morocco, Algeria, Egypt, and Turkey, and other minor territories.

<u>Sales</u>	<u>2005</u>	<u>2004</u>
Spain	277,174	173,529
Middle East	182,734	73,673
America	79,054	49,684
Asia	28,602	48,007
Mediterranean	117,550	211,052
	<u>685,114</u>	<u>555,945</u>

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

6. Segment reporting (continued)

Sales are assigned on the basis of the country where the customer is located.

	Total assets		Capital expenditure	
	2005	2004	2005	2004
	(In thousands of euros)			
Spain	276,550	98,503	—	—
Middle East	147,425	68,934	470	223
America	65,517	19,111	29	166
Asia	93,593	37,976	—	—
Mediterranean	61,932	133,849	—	—
Total	645,017	358,373	499	389
Associates	11,506	10,422	—	—
Unassigned assets	200,777	149,630	8,925	4,726
	857,300	518,425	9,424	5,115

Total assets and capital expenditure are assigned on the basis of the assets' location.

7. Property, plant and equipment

The breakdown of movements in items making up property, plant and equipment are as follows:

Cost	Land and buildings	Plant and machinery	Furnishings and equipment	Assets under construction	Other assets	Total
	(In thousands of euros)					
Balance at 1 January 2004	1,137	5,784	10,759	1,157	3,270	22,107
Increases	113	418	1,094	1,381	0	3,006
Decreases	(259)	0	0	0	(286)	(545)
Other movements	0	0	0	0	0	0
Balance at 31 December 2004	991	6,202	11,853	2,538	2,984	24,568
Increases	0	3,260	4,643	0	510	8,413
Decreases	(18)	(424)	0	0	(270)	(712)
Other movements	0	0	0	0	0	0
Balance at 31 December 2005	973	9,038	16,496	2,538	3,224	32,269

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

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7. Property, plant and equipment (continued)

<u>Accumulated depreciation</u>	<u>Land and buildings</u>	<u>Plant and machinery</u>	<u>Furnishings and equipment</u>	<u>Assets being constructed</u>	<u>Other assets</u>	<u>Total</u>
	(In thousands of euros)					
Balance at 1 January 2004	435	2,956	7,836	0	1,666	12,893
Increases	13	417	952	0	337	1,719
Decreases	(61)	0	0	0	(191)	(252)
Other movements	0	0	0	0	0	0
Balance at 31 December 2004	387	3,373	8,788	0	1,812	14,360
Increases	13	472	1,151	0	346	1,982
Decreases	(3)	(117)	0	0	(237)	(357)
Other movements	0	0	0	0	0	0
Balance at 31 December 2005	397	3,728	9,939	0	1,921	15,985
Net balance at 1 January 2004	702	2,828	2,923	1,157	1,604	9,214
Net balance at 31 December 2004	604	2,829	3,065	2,538	1,172	10,208
Net balance at 31 December 2005	576	5,310	6,557	2,538	1,303	16,284

The heading Land and buildings include office buildings that are owned by some of the Group companies.

The balance under Assets being constructed record the engineering cost relating to the designed and construction of a battery and fluorescent tube recycling plant for a group company together with the municipality of Aguilar de Campoo. During the year the project was interrupted for reasons linked to the adequacy of the land on which the recycling plant was to be built. The Group has not recorded any impairment of assets under construction since it considers that the engineering cost is recoverable based on the negotiations held with the municipality of Aguilar de Campoo and the expected flows for the plant.

The caption furnishings and equipment includes the following amounts in respect of finance leases under which the Group is the Lessee:

	2005	2004
	(In thousands of euros)	
Capitalised finance lease cost	2,251	1,191
Accumulated depreciation	(957)	(442)
Net carrying value	1,294	749

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

7. Property, plant and equipment (continued)

Finance lease agreements entered into by the company mainly relate to the acquisition of computer equipment.

At 31 December 2005 the group recorded property, plant and equipment located abroad with an original cost of 2,947 thousands of euros (2004: 1,631 thousands of euros) and accumulated depreciation totalling 1,500 thousands of euros (2004: 906 thousands of euros).

The group's policy is to obtain all insurance policies deemed necessary to cover the risks that could affect its property, plant and equipment.

8. Goodwill and other intangible assets

The breakdown of movements in items making up Intangible assets are as follows:

<u>Cost</u>	<u>Computer applications</u>	<u>Development expenses</u>	<u>Assets under construction</u>	<u>Other fixed assets</u>	<u>Subtotal</u>	<u>Goodwill</u>	<u>Total</u>
			(In thousands of euros)				
Balance at 1 January 2004	2,722	8,365	276	213	11,576	1,242	12,818
Increases	1,470	145	461	33	2,109	0	2,109
Decreases	—	—	—	—	—	—	—
Other movements	—	—	—	—	—	—	—
Balance at 31 December 2004	4,192	8,510	737	246	13,685	1,242	14,927
Increases	777	41	139	54	1,011	—	1,011
Decreases	(40)	—	—	—	(40)	—	(40)
Other movements	—	—	—	—	—	—	—
Balance at 31 December 2005	4,929	8,551	876	300	14,656	1,242	15,898

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

8. Goodwill and other intangible assets (continued)

<u>Accumulated amortisation</u>	<u>Computer applications</u>	<u>Development expenses</u>	<u>Assets under construction</u>	<u>Other fixed assets</u>	<u>Subtotal</u>	<u>Goodwill</u>	<u>Total</u>
			(In thousands of euros)				
Balance at 1 January 2004	1,938	7,551	—	213	9,702	—	9,702
Increases	384	364	—	0	748	—	748
Decreases	—	—	—	—	—	—	—
Other movements	—	—	—	—	—	—	—
Balance at 31 December 2004	2,322	7,915	—	213	10,450	—	10,450
Increases	536	194	—	0	730	—	730
Decreases	(16)	—	—	0	(16)	—	(16)
Other movements	—	—	—	—	—	—	—
Balance at 31 December 2005	2,842	8,109	—	213	11,164	—	11,164
Net balance at 1 January 2004	784	814	276	—	1,874	1,242	3,116
Net balance at 31 December 2004	1,870	595	737	33	3,235	1,242	4,477
Net balance at 31 December 2005	2,087	442	876	87	3,492	1,242	4,734

Recognised development expenses entirely concern the cost of projects relating to the zinc technology that has been used for Group contracts or has been sold to customers. The recognised amount makes reference to the Zincex and New Zinc Electrolysis projects, the carrying value of which at 31 December 2005 amounts to 285 thousands of euros and 157 thousands of euros, respectively.

During the year the cost of research and development charged against the profit and loss account totalled 642 thousands of euros and in 2004 this figure totalled 708 thousands of euros.

Assets being developed refer to the construction cost of a parking lot in Huercal Overa where the group has received a concession to operate the parking lot for 30 years. At the end of a concession asset will revert in full to the granting authority. The Group will amortize the recognised asset during the term of the concession.

The caption Computer software records the ownership and user rights for computer software acquired from third parties. The balance of Computer software does not include amounts linked to the internal development of computer applications.

Testing for impairment losses on goodwill

Goodwill has been assigned to the cash generating unit (CGU) identified as Eurocontrol, S.A.; a Group company in which an indirect 80% interest is held.

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(In thousands of euros)

8. Goodwill and other intangible assets (continued)

The cash generating unit identified pertains to the business segment broken down under Other in Note six and its operations are located in Spain.

At 1 January 2004 an impairment test was performed on goodwill and no loss was recognised.

In addition, impairment tests were performed at 31 December 2004 and 31 December 2005 and no impairment losses were recognised.

The amount recoverable from a CGU has been determined on the basis of calculations of value in use. Cash flow projections based on financial budgets approved by Management covering a five-year period and applying a 6% growth rate have been used. The growth rate used reflects the current plans and the situation of the market. The final value of the CGU has been determined using a constant growth rate.

The discount rate used was 8.9% (2004:8.9%)

The group considers, based on its current knowledge, that expected changes in the key assumptions mentioned above, on which the recoverable amount calculation is based, will not result in carrying amounts for cash generating units exceeding the recoverable amounts.

Sensitivity analysis on the key hypothesis growth and discount rate were performed. With no growth, and a discount rate of 11% there would be no impairment in the cash generating unit.

9. Investments in associates

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Opening balance	10,422	5,497
Additions	101	4,815
Profit sharing	983	110
Closing balance	<u>11,506</u>	<u>10,422</u>

Investments in associates at 31 December 2005 include goodwill totalling 411 thousands of euros (2004: 411 thousands of euros). During the year there have been no events or circumstances that could indicate a possible impairment of goodwill and no losses in this respect have been recorded.

None of the associates are listed on a stock market. The date of presentation of the annual accounts for all associates coincides with the presentation date of the parent company's annual accounts.

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(In thousands of euros)

9. Investments in associates (continued)

The Group's shareholdings in its main associates, none of which are listed on a stock market, are as follows:

<u>Name</u>	<u>Country of origin</u>	<u>Assets</u>	<u>Liabilities</u>	<u>% shareholding</u>
		<u>(In thousands of euros)</u>		
2004				
Empresarios Agrupados, A.I.E.	Spain	5,287	4,538	43.00%
Empresarios Agrupados Internacional, S.A.	Spain	8,555	5,163	43.00%
Explotaciones Varias, S.A.	Spain	2,942	530	50.00%
Ibérica del Espacio, S.A.	Spain	2,173	520	21.50%
Productora de Diesel, S.A.	Chile	90,608	75,616	27.50%
Green Fuel Corporación, S.A.	Spain	190	65	20.93%
		<u>109,755</u>	<u>86,432</u>	
2005				
Empresarios Agrupados, A.I.E.	Spain	4,278	3,528	43.00%
Empresarios Agrupados Internacional, S.A.	Spain	7,499	3,879	43.00%
Explotaciones Varias, S.A.	Spain	2,865	618	50.00%
Ibérica del Espacio, S.A.	Spain	2,936	1,206	21.50%
Productora de Diesel, S.A.	Chile	95,228	74,121	27.50%
Green Fuel Corporación, S.A.	Spain	621	84	20.93%
		<u>113,427</u>	<u>83,436</u>	

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

9. Investments in associates (continued)

<u>Name</u>	<u>Country of origin</u>	<u>Revenues</u>	<u>Profit/(Loss)</u>	<u>% shareholding</u>
(In thousands of euros)				
2004				
Empresarios Agrupados, A.I.E.	Spain	15,255	0	43.00%
Empresarios Agrupados Internacional, S.A.	Spain	10,600	320	43.00%
Explotaciones Varias, S.A.	Spain	325	(112)	50.00%
Ibérica del Espacio, S.A.	Spain	3,184	166	21.50%
Productora de Diesel, S.A.	Chile	0	(117)	27.50%
Green Fuel Corporación, S.A.	Spain	2	(59)	20.93%
		<u>29,366</u>	<u>198</u>	
2005				
Empresarios Agrupados, A.I.E.	Spain	14,605	0	43.00%
Empresarios Agrupados Internacional, S.A.	Spain	10,100	227	43.00%
Explotaciones Varias, S.A.	Spain	314	(165)	50.00%
Ibérica del Espacio, S.A.	Spain	3,016	76	21.50%
Productora de Diesel, S.A.	Chile	3,351	2,531	27.50%
Green Fuel Corporación, S.A.	Spain	133	65	20.93%
		<u>31,519</u>	<u>2,734</u>	

10. Available-for-sale financial assets

Movements in the items making up this caption are as follows:

	(In thousands of euros)
At 1 January 2004	287
Additions	69
Disposals	(42)
At 31 December 2004	314
Additions	615
Disposals	(242)
At 31 December 2005	687
Less: Non-current portion	687
Current portion	—

The balance of available-for-sale financial assets mainly consists of the investment for 506 thousands of euros in Energía Concon, S.A acquired by the Group in June 2005. The cost of such

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

10. Available-for-sale financial assets (continued)

investment is considered its fair value as it took place with third parties in a time near to the balance sheet date. The remainder of the balances is made of minority interests in companies that are not listed and in which the Group does not have significant influence. Due to the fact that these items consist of residual investments in small companies within the Group and the impossibility of applying evaluation techniques, these investments are presented at acquisition cost.

In 2005 there were no provisions for impairment losses affecting available-for-sale financial assets.

11. Derivative financial instruments

The balances relating to financial derivatives at the end of 2005 and 2004 are as follows:

	2005		2004	
	Assets	Liabilities	Assets	Liabilities
	(In thousands of euros)			
Forwards FX contracts—cash flow hedges	237	12,011	3,615	—
Forwards FX contracts—held for trading	—	183	252	3,475
Total	237	12,194	3,867	3,475
Less non-current portion				
Forwards FX contracts—cash flow hedges	187	726	—	—
Current portion	50	11,468	3,867	3,475

Details regarding maturity dates set out by year for the contracts in force at 31 December 2005 and 2004 are as follows:

	2005	2006	2007	2008	Total fair value
	(In thousands of euros)				
Total 2005 assets	—	49	182	6	237
Total 2005 liabilities	—	11,468	726	—	12,194
Total 2004 assets	3,867	—	—	—	3,867
Total 2004 liabilities	3,475	—	—	—	3,475

The amounts relating to the principal amount of currency term contracts, mainly covering of the sale of US dollars against the purchase of euros, outstanding at 31 December 2005 totalled thousands of USD 234,980 (2004: thousands of USD 81,698).

Gains and losses in equity due to forwards FX contracts at 31 December 2005 total (10,552) thousands of euros (2004: 1,122 thousands of euros) and will be taken to the income statement on several dates between three months and two years after the balance sheet date.

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(In thousands of euros)

12. Trade and other receivables

The composition of the balances recorded under this caption at the end of 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Trade receivables	423,507	272,375
Less: Provision for impairment losses on accounts receivable	(4,003)	(10,880)
Trade receivables—Net	419,504	261,495
Withholdings	145	325
Other accounts receivable	6,438	4,977
Prepayments	33,542	11,155
Accounts receivable from related parties	13,379	17,576
Total	<u>473,008</u>	<u>295,528</u>

The trade receivable account includes 281,475 thousands of euros (2004: 176,200 thousands of euros) for work executed but pending certification, which is calculated in accordance with the criteria established under Note 2.18.

There is no significant effect on the fair value of trade and other receivables. Nominal values are considered to be an approximation of their fair value.

The Group has recognised a loss totalling 252 thousands of euros due to the impairment of its trade receivables for the year ended 31 December 2005. The movement in the provision for impairment losses affecting trade receivables is as follows:

	<u>(In thousands of euros)</u>
Opening balance	10,880
Increase in provision for the year	252
Used during the year	(7,129)
Closing balance	<u>4,003</u>

The total amount of the costs incurred and profits recognised (less recognised losses) for all current contracts at the balance sheet date were 2,145,981 thousands of euros (2004: 1,687,518 thousands of euros) and 184,565 thousands of euros (2004: 168,998 thousands of euros) respectively.

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13. Inventories

The breakdown of the inventory balances is as follows:

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Current construction projects	1,097	921
Materials	4,779	1,734
	<u>5,876</u>	<u>2,655</u>

The heading Current construction projects records the costs of developing a parking lot in Huercal Overa as is described in Note 8, for the portions that will be sold.

14. Receivables and other assets

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Receivables and other non-current assets		
Loans to employees	572	355
Deposits and guarantees	1,455	900
	<u>2,027</u>	<u>1,255</u>
Receivables and other current assets		
Loans to associates	748	36
Interest	126	—
Loans to employees	309	381
Deposits and guarantees	65	62
Prepayments	1,621	222
Other	651	—
	<u>3,520</u>	<u>701</u>

Prepayments include deferred costs mainly for insurance premiums, maintenance costs and licenses.

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(In thousands of euros)

15. Financial assets at fair value through profit or loss

Movements in, and a breakdown of, the items making up this caption are as follows:

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Opening balance	54,337	62,895
Net additions and (disposals)	2,929	(8,558)
Closing balance	<u>57,266</u>	<u>54,337</u>
Listed securities:		
Investments in short-term fixed income securities	187	157
Investments in short-term equities	55,487	53,861
Investments in short-term fixed income securities (UTES)	1,592	319
	<u>57,266</u>	<u>54,337</u>

All financial assets are considered to be held for trading.

Other financial assets at fair value through profit and loss are presented in trading operations as part of changes in working capital in the cash flow statement.

Changes in the fair value of other financial assets at fair value through profit and loss are recorded under net financial interest and expense in the income statement.

Financial assets at fair value through profit and loss represent investments in listed equities and their fair value at 31 December 2005 has been determined by referencing the market price at the end of the year.

16. Cash and cash equivalents

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Cash and banks	161,018	53,583
Short-term bank deposits	97,117	61,763
	<u>258,135</u>	<u>115,346</u>

Cash and cash equivalents include cash, demand deposits at credit institutions, other short-term highly liquid investments with an original maturity of three months or less and bank overdrafts.

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16. Cash and cash equivalents (continued)

The effective interest rate on short-term deposits at credit institutions stood at 2.13% for deposits in Euros and 4.18% for deposits in USD (2004: 2.06% in euros and 2.26% in USD) and the average maturity period for these deposits is 15 days.

As a result of the conditions established in the contracts for certain projects, at 31 December 2005 there are Cash and cash equivalents totalling 4,722 thousands of euros which are of restricted availability.

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

17. Share capital

	<u>No. of shares</u>	<u>Ordinary shares</u>	<u>Share premium account</u>	<u>Total</u>
At 1 January 2004	931,600	5,599	8,691	14,290
Other movements	—	(9)	—	(9)
Balance at 31 December 2004	931,600	5,590	8,691	14,281
Other movements	—	—	—	—
Balance at 31 December 2005	<u>931,600</u>	<u>5,590</u>	<u>8,691</u>	<u>14,281</u>

The total authorised number of ordinary shares is 931,600 shares (2004: 931,600 shares) with a par value of 6 €/ share (2004: 6 €/share). All shares issued have been fully paid in. There are no restrictions on the unrestricted transfer of the shares.

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(In thousands of euros)

17. Share capital (continued)

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

Shareholder	2005		2004	
	No. of shares	% interest	No. of shares	% interest
Mr. José Lladó Fernández-Urrutia	1,000	0.11%	1,000	0.11%
Mrs. Marta Lladó Arburúa	13,080	1.404%	13,080	1.404%
Mrs. María Lladó Arburúa	13,080	1.404%	13,080	1.404%
Mrs. Pilar Lladó Arburúa	13,080	1.404%	13,080	1.404%
Mr. José Manuel Lladó Arburúa	13,080	1.404%	13,080	1.404%
Mr. Juan Lladó Arburúa	13,080	1.404%	13,080	1.404%
Banco Industrial de Bilbao	124,104	13.32%	124,104	13.32%
Bilbao Vizcaya Holding	112,434	12.07%	112,434	12.07%
Araobra, S.L.	178,187	19.13%	178,187	19.13%
Banco Santander Central Hispano	—	—	354,202	38.02%
Araltec, S.L.	450,475	48.35%	96,273	10.33%
TOTAL	<u>931,600</u>	<u>100.00%</u>	<u>931,600</u>	<u>100.00%</u>

18. Other reserves

The total balance of 1,137 thousands of euros relates to the Legal Reserve. This reserve, which is fully paid, may not be distributed to shareholders and may only be used to cover any losses should no other sufficient reserves be available. It may also be used to increase share capital under certain situations.

19. Cumulative translation difference

	Total (In thousands of euros)
1 January 2004	—
Translation differences:	
—Group and associates	(896)
31 December 2004	(896)
Translation differences:	
—Group and associates	351
31 December 2005	<u>(545)</u>

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19. Cumulative translation difference (continued)

The breakdown of the cumulative translation difference by company / subgroup at the 2005 and 2004 year ends is as follows:

<u>Company or subgroup</u>	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Damietta LNG Construction	(539)	(526)
Técnicas Reunidas Metalurgica S.A.	160	—
Técnicas Reunidas Gulf Ltd	(192)	—
Other	26	(370)
Total	<u>(545)</u>	<u>(896)</u>

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(In thousands of euros)

20. Retained earnings and minority interests

The breakdown at 31 December 2005 and 2004 of Retained earnings and minority interests is as follows:

<u>Company</u>	<u>2005</u>	<u>2004</u>
	(In thousands of euros)	
Técnicas Reunidas, S. A.	107,536	80,263
Técnicas Reunidas Internacional, S. A.	688	366
Termotécnica, S. A.	892	821
Técnicas Reunidas Construcción y Montaje, S.A.	1,462	1,525
Técnicas Reunidas Ecología, S. A.	372	240
Técnicas Reunidas Metalúrgica, S. A.	155	157
Técnicas Reunidas Trade Panamá, S. A.	28	26
Española de Investigación y Desarrollo, S.A.	671	716
Técnicas Siderúrgicas, S. A.	82	81
Técnicas Reunidas Gulf L.T.D.	82	30
Green Fuel Corporación, S.A.	12	26
Productora de Diesel, S.A.	1,304	577
T. Reunidas Proyectos Internacionales, S.A.	317	315
Heymo Ingeniería, S. A.	1,740	1,519
Empresarios Agrupados Internacional, S. A.	1,261	1,168
Layar Group	2,889	2,177
Ibérica del Espacio, S.A.	230	214
Initec Plantas Industriales, S.A.	31,996	29,345
Initec Infraestructuras, S.A.	4,682	6,578
KJT Engenharia Materiais	302	2,569
Damietta Project Management, Co.	(70)	104
Damietta LNG Construction	(8,365)	(5,556)
Reciclaguilar, S.A.	(73)	(39)
Initec Chile, S.A.	(54)	(227)
Explotaciones Varias, S.A.	(139)	(56)
Pegasides SICAV, S.A.	1,415	831
TR Engineering LLC	(6)	—
Minatrico, S. de R.L. de C.V.	267	—
Ebramex, S. de R.L. de C.V.	378	—
TPC Vietnam	1,949	—
Construcción e Ingeniería FI Ltda.	91	—
Construcción e Ingeniería FIM Ltda.	62	—
Retained earnings	152,156	123,770

There are no restrictions to the availability of these retained earnings. The only restrictions affect the legal reserve as described in Note 18.

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(In thousands of euros)

20. Retained earnings and minority interests (continued)

The contribution to consolidated results of each company included in consolidation is as follows:

<u>Company</u>	<u>2005</u>	<u>2004</u>
	(In thousands of euros)	
Técnicas Reunidas, S. A.	23,165	(13,610)
Técnicas Reunidas Internacional, S. A.	322	32,182
Térmotécnica, S. A.	71	62
Técnicas Reunidas Construcción y Montaje, S.A.	(63)	(2)
Técnicas Reunidas Ecología, S. A.	132	(116)
Técnicas Reunidas Metalúrgica, S. A.	(2)	34
Técnicas Reunidas Trade Panamá, S. A.	2	—
Española de Investigación y Desarrollo, S.A.	(45)	335
Técnicas Siderúrgicas, S. A.	1	(2)
Técnicas Reunidas Gulf L.T.D.	52	(11)
Green Fuel Corporación, S.A.	(14)	(13)
Productora de Diesel, S.A.	727	(35)
T. Reunidas Proyectos Internacionales, S.A.	2	(46)
Heymo Ingeniería, S. A.	359	313
Empresarios Agrupados Internacional, S. A.	93	131
Layar Group	(365)	170
Ibérica del Espacio, S.A.	16	35
Initec Plantas Industriales, S.A.	14,651	7,428
Initec Infraestructuras, S.A.	104	263
KJT Engenharia Materiais	293	811
Damietta Project Management, Co.	17	15
Damietta LNG Construction	(2,809)	(5,908)
Reciclaguilar, S.A.	(34)	(28)
Initec Chile, S.A.	173	(4)
Explotaciones Varias, S.A.	(83)	(56)
Pegasides, SICAV de S.A.	584	569
TR Engineering LLC	(6)	—
Minatrico, S. de R.L. de C.V.	267	—
Ebramex, S. de R.L. de C.V.	378	—
TPC Vietnam	1,949	—
Construcción e Ingeniería FI Ltda.	91	—
Construcción e Ingeniería FIM Ltda.	62	—
Eurocontrol, S.A.	1,077	643
Profit attributed to the parent company	<u>41,167</u>	<u>23,160</u>

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

20. Retained earnings and minority interests (continued)

The proposal for distributing the parent company's 2005 profit that will be presented to shareholders at the General Meeting and the approved distribution for 2004 is as follows:

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
<i>Available for distribution</i>		
Profit for the year	39,488	20,111
	<u>39,488</u>	<u>20,111</u>
<i>Distribution</i>		
Retained earnings	15,488	7,311
Dividends	24,000	12,800
	<u>39,488</u>	<u>20,111</u>

The composition of the amount assigned to Dividends is as follows:

- 2004: Dividends totalling 12,800 thousands of euros were approved by shareholders at General Meetings held on 31 March and 31 June 2005.
- 2005: Dividends totalling 24,000 thousands of euros breakdown as follows:
 - o 12,000 thousands of euros approved as interim dividends, which were approved by the shareholders at a meeting held on 21 December 2005.
 - o 12,000 thousands of euros submitted for the approval of shareholders that will approve the annual accounts for 2005.

Additionally, the shareholders at a meeting held on 9 March 2006 approved the payment of a dividend for 48,000 thousands of euros against Retained earnings.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

20. Retained earnings and minority interests (continued)

The forecast accounting statement and the cash statement at the interim dividend distribution date are as follows:

	Amount (In thousands of euros)
Estimated profit for the year	31,000
Estimated income tax recoverable	7,600
Maximum possible distribution	38,600
Interim dividend proposed	12,000
Excess	26,600
Treasury before interim dividend payment	129,000
Interim dividend proposed	12,000
Closing Treasury balance	117,000

The development of minority interests in 2004 and 2005, is as follows:

	Eurocontrol, S.A.	Pegasides, SICAV de SA	Termotécnica, S.A.	Reciclaguilar, S.A.	Técnicas Reunidas Gulf Ltd	TR Engineering LLC	Total
	(In thousands of euros)						
1 January 2004	932	3	1	(8)	—	—	928
Increases	161	1	—	(7)	(4)	—	151
Other	(23)	(1)	—	—	63	—	39
31 December 2004	1,070	3	1	(15)	59	—	1,118
Increases	269	4	—	(8)	17	173	455
Other	123	(3)	—	2	6	430	558
31 December 2005	1,462	4	1	(21)	82	603	2,131

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

21. Trade payables and other payables

a) The amount figuring under Trade payables breaks down as follows:

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Suppliers	314,435	228,774
Prepayments received for contracted work	235,064	71,309
Other	1,186	937
	<u>550,685</u>	<u>301,020</u>

b) The amount figuring under Other payables breaks down as follows:

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Non-current		
Liabilities for finance leases	889	931
	<u>889</u>	<u>931</u>
Current		
Liabilities for finance leases	722	381
Dividend	12,474	—
Other payables	4,795	3,416
Total borrowings	<u>17,991</u>	<u>3,797</u>

Other payables have the following maturities:

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Between 1 and 2 years	479	258
Between 2 and 5 years	410	673
More than 5 years	—	—
	<u>889</u>	<u>931</u>

The amounts represent the liability for minimum payments on leases discounted to present value. Future financial charges for finance leases total 128 thousands of euros (2004: 160 thousands of euros). Lease agreements in which the Group has entered into commitments refer to the acquisition of computer equipment and other property, plant and equipment.

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(In thousands of euros)

22. Borrowings

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Current		
Borrowings with financial institutions	54,210	18,773
Total borrowings	<u>54,210</u>	<u>18,773</u>

The average effective interest rates (all of them variable) at the balance sheet date were as follows:

	<u>2005</u>		<u>2004</u>
	<u>Euros</u>	<u>USD</u>	<u>Euros</u>
	<u>(In thousands of euros)</u>		
Borrowings	3.5%	5%	3%

The carrying amount of borrowings approximates fair value.

The carrying amount of the group's borrowings is denominated in the following currencies:

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Euro	49,604	18,773
US dollar	4,606	—
	<u>54,210</u>	<u>18,773</u>

To secure loans received totalling 32,230 thousands of euros (2004: 18,745 thousands of euros), the Group has provided a guarantee consisting of all the shares representing its interest in the subsidiary Pegasides SICAV, S.A. The net assets provided by these companies to these consolidated annual accounts totalled 36,132 thousands of euros (2004: 35,548 thousands of euros).

The Group has the following unused credit lines:

<u>Variable rate:</u>	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
- maturing in less than one year	25,579	24,040
- maturing in more than one year	28,788	15,855
	<u>54,367</u>	<u>39,895</u>

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

23. Employee benefits

At 31 December 2005 the Group records obligations with its employees for pensions and retirement benefits as well as long-term compensation.

Pension and retirement obligations refer to commitments set out in the Collective Wage Agreement for some Group companies relating to retirement bonuses for employees that have worked for the number of years established by the Agreement at the date of retirement.

Long-term compensation obligations refer to commitments established on a continuous basis by some group companies and relate to loyalty bonuses.

At 31 December 2005 there are no assets linked to the defined benefit commitments with employees.

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Commitments in the balance sheet in respect of:		
Pension and retirement benefits	3,438	3,037
Long-term compensation obligations	292	287
	<u>3,730</u>	<u>3,324</u>
Charges in the income statement in respect of:		
Pension and retirement benefits	595	645
Long-term compensation obligations	55	58
	<u>650</u>	<u>703</u>

Pension and retirement benefits

The amounts recognised in the balance sheet have been calculated as follows:

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Present value of the obligations at 1 January	3,037	2,430
Cost of the services for the current year	257	236
Interest costs	141	136
Benefits paid and expenses	(194)	(38)
Actuarial gains and (losses)	197	273
Liability in the balance sheet	<u>3,438</u>	<u>3,037</u>

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

23. Employee benefits (continued)

The movement in the liability recognised in the balance sheet is as follows:

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Opening balance	3,037	2,430
Expense debited to the income statement	595	645
Contributions paid	(194)	(38)
Closing balance	<u>3,438</u>	<u>3,037</u>

The principal actuarial assumptions used are as follows:

	<u>2005</u>	<u>2004</u>
Annual discount rate	4.30%	4.80%
Annual salary growth	3.50%	3.50%
Annual inflation	2.50%	2.50%
Mortality	PERM/F 2000 Production	PERM/F 2000 Production
Retirement age	65 years	65 years

The amounts recognised in the profit and loss account are as follows:

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Cost for current services	257	236
Interest costs	141	136
Actuarial gains/(losses)	197	273
Total included under personnel costs (Note 27)	<u>595</u>	<u>645</u>

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

23. Employee benefits (continued)

Long-term compensation obligations

The amounts recognised in the balance sheet have been calculated as follows:

	<u>2005</u>	<u>2004</u>
	(In thousands of euros)	
Present value of the obligations at 1 January	287	241
Cost of the services for the current year	26	23
Interest costs	13	13
Benefits paid and expenses	(50)	(12)
Actuarial gains and (losses)	<u>16</u>	<u>22</u>
Liability in the balance sheet	<u>292</u>	<u>287</u>

The movement in the liability recognised in the balance sheet is as follows:

	<u>2005</u>	<u>2004</u>
	(In thousands of euros)	
Opening balance	287	241
Expense debited to the income statement	55	58
Contributions paid	<u>(50)</u>	<u>(12)</u>
Closing balance	<u>292</u>	<u>287</u>

The amounts recognised in the profit and loss account are as follows:

	<u>2005</u>	<u>2004</u>
	(In thousands of euros)	
Cost for current services	26	23
Interest costs	13	13
Actuarial gains/(losses)	<u>16</u>	<u>22</u>
Total included under personnel costs (Note 27)	<u>55</u>	<u>58</u>

The actuarial assumptions for this commitment are the same as those used for pension and retirement commitments as they have similar compliance conditions.

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

24. Provisions for liabilities and charges

a) Provisions for liabilities and charges—non-current portion

<u>ITEM</u>	<u>Provision for estimated losses on jobs</u>	<u>Provision for job completion</u>	<u>Other provisions</u>	<u>Total provisions for liabilities and charges</u>
		(In thousands of euros)		
Balance at 31.12.03	2,814	76	44,724	47,614
Reversals	474	0	33,260	33,734
Used during the year	0	0	0	0
Increase in provision	0	19,284	0	19,284
Balance at 31.12.04	2,340	19,360	11,464	33,164
Reversals	1,754	19,174	2,860	23,788
Used during the year	0	0	2,000	2,000
Increase in provision	1,000	36,855	7	37,862
Balance at 31.12.05	1,586	37,041	6,611	45,238

Provision for estimated losses on jobs:

In compliance with the content of IAS 11, the Group forms provisions to cover future estimated losses on projects currently in progress.

Provision for job completion:

Similarly, for those projects that are finished or substantially finished and, therefore, are in the warranty period or are close to being in the warranty period, the Group makes an estimate of probable costs that will be incurred during the warranty period and forms the relevant provision.

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(In thousands of euros)

24. Provisions for liabilities and charges (continued)

The provisions formed by the Group at the end of 2005 and 2004 relate to the following projects:

<u>Project</u>	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Project 1630—EO/EG Plant Nanhai	3,000	—
Project 1640—C1 Chemical Complex Basf	5,000	—
Project 1660—Diesel / Kerosene Hydrop.	4,900	—
Project 1690—DHT Complex—Yanbu Refi. Pro.	6,200	—
Project 8211—LNG terminal—Port of Bilbao	1,665	—
Project 8214—Field development Ourhoud	2,060	—
Project 8344—Extension of a compression station—Maghreb	1,510	—
Project Damietta—Segas	9,499	19,088
Other projects	3,207	272
Total	<u>37,041</u>	<u>19,360</u>

Other provisions:

This item relates to provisions formed to cover other liabilities and charges, including commitments to project partners, provisions for probable risks and provisions for other payments to be made in the long-term Other provisions as at 31 December 2003 mainly include provisions in UTEs abroad (basically several UTEs located in China) that are intended to cover risks of fiscal nature and other risks related with the engineering projects that were probable at such date. In the year 2004 no longer existing the causes that originated such risks, these provisions were released.

b) Provisions for liabilities and charges—current portion

(In thousands of euros)

Balance at 1 January 2004	<u>3,064</u>
Reversals	196
Used during the year	—
Increase in provision	35
Balance at 31 December 2004	<u>2,903</u>
Reversals	686
Used during the year	—
Increase in provision	2,804
Balance at 31 December 2005	<u>5,021</u>

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

25. Revenues

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Construction and engineering contract revenues	684,978	555,743
Services rendered	<u>136</u>	<u>202</u>
Total revenues	<u>685,114</u>	<u>555,945</u>

Note 6 presents the main business and geographical segments in which the Group operates.

26. Other operating costs and revenues

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Other operating costs		
Services	95,059	89,661
Independent professional services	21,226	7,840
Repairs and maintenance	3,000	1,455
Banking and similar services	2,496	1,230
Insurance premiums	1,580	1,634
Supplies	1,125	802
Other	<u>21,363</u>	<u>1,415</u>
	<u>145,849</u>	<u>104,037</u>
Other operating revenues		
Operating subsidies	1,330	1,133
Other	<u>3,793</u>	<u>3,462</u>
	<u>5,123</u>	<u>4,595</u>

The amount under Other in Other operating costs mainly records the appropriations to and reversals of provisions for long and short-term liabilities and charges.

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(In thousands of euros)

27. Employee benefit expenses

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Wages and salaries, including severance indemnities amounting to 883 thousands of euros (2004: 655 thousands of euros)	93,963	86,923
Social Security expense	23,148	20,626
Pension costs—pension and retirement benefit plans (Note 23)	595	645
Long-term compensation obligations (Note 23)	55	58
	<u>117,761</u>	<u>108,252</u>

28. Operating leases

The minimum future payments due for irrevocable operating leases are as follows:

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Less than 1 year	8,521	4,049
Between 1 and 5 years	24,022	12,028
More than 5 years	2,478	3,643

The expense recognised in the income statement during the year for operating leases totalled 11,402 thousands of euros (2004: 8,365 thousands of euros).

29. Financial income and expense

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Interest costs:		
- Bank loans	(1,223)	(957)
Interest revenue:		
- Other	2,690	2,587
	<u>1,467</u>	<u>1,630</u>
Gains /(losses) net in respect of transactions in foreign currency	2,264	(3,747)
Gains in the fair value of financial instruments at fair value through profit and loss . .	3,106	1,533
	<u>5,370</u>	<u>(2,214)</u>
	<u>6,837</u>	<u>(584)</u>

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

30. Income tax

On 30 September 1993 the Directorate General for Taxation granted the use of the Consolidated Tax System to the following companies: Técnicas Reunidas, S.A., Técnicas Reunidas Internacional, S.A., Termotécnica, S.A., Proyectos Internacionales, S.A., Técnicas Reunidas Ecología, S.A.. Subsequently, in 1994, the companies Técnicas Siderúrgicas, S.A., Española de Investigación y Desarrollo, S.A. entered into the consolidated tax system. In 1998 the tax group was enlarged to include the Company Técnicas Reunidas Metalúrgicas, S.A. and in 1999 Layar, S.A., Layar Castilla, S.A. and Layar Real Reserva, S.A. joined the tax group. In 2003 Eurocontrol, S.A. joined and in 2004 so did Initec Plantas Industriales, S.A. and Initec Infraestructuras, S.A. In 2005 there were no changes to the tax group.

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Corporate income tax payable for the year	(2,068)	(250)
Deferred tax	(2,962)	(5,718)
	<u>(5,030)</u>	<u>(5,968)</u>

There are no deferred taxes generated by transactions directly charged or credited to equity.

The Group's income tax differs from the theoretical amount that would have been obtained had the tax rate applicable to the consolidated companies' profits been used as follows:

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Profit before taxes	36,592	17,343
Tax calculated at the tax rate applicable to the parent company's profits	12,808	6,070
Tax free results	(16,823)	(11,789)
Non-deductible expenses for tax purposes	138	95
Effect generated by differences in foreign tax rates	(821)	(282)
Other	(332)	(62)
Tax expense	<u>(5,030)</u>	<u>(5,968)</u>

The actual tax rate was -13.74% (-34.41% in 2004) mainly as a result of the Group's generation of revenues abroad which are exempt from corporate income tax in accordance with the system established by Law 18/1982 (26 May) on the Tax System for Groupings and Joint Ventures and Regional Industrial Development Companies. These revenues included in the line Tax free results in the aforementioned table, have been generated by UTEs involved in the exporting activities and included in the Exhibit IV.

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(In thousands of euros)

30. Income tax (continued)

Deferred tax assets and liabilities

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Deferred tax assets		
—to be offset in more than 12 months	24,020	15,977
—to be offset in less than 12 months	—	3,338
	<u>24,020</u>	<u>19,315</u>
Deferred tax liabilities		
—to be offset in more than 12 months	258	176
—to be offset in less than 12 months	—	101
	<u>258</u>	<u>277</u>

Movements in deferred tax assets and liabilities are as follows:

	<u>Asset</u>	<u>Liability</u>
	<u>(In thousands of euros)</u>	
At 31 January 2004	13,395	(404)
Reversals	(236)	127
Increase in tax assets and liabilities for the year	6,232	—
Other movements	(76)	—
At 31 December 2004	19,315	(277)
Reversals	(6,636)	101
Increase in tax assets and liabilities for the year	11,730	(82)
Other movements	(389)	—
At 31 December 2005	24,020	(258)

Deferred tax assets and liabilities are generated by the following:

	<u>2005</u>	<u>2004</u>
	<u>(In thousands of euros)</u>	
Tax credits for tax-loss carry-forwards	7,968	6,206
Provisions for liabilities and charges	12,679	9,648
Change in current assets	1,926	2,081
Change in non-current assets	1,447	1,380
	<u>24,020</u>	<u>19,315</u>

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

30. Income tax (continued)

	<u>2005</u>	<u>2004</u>
	(In thousands of euros)	
Subsidies	258	176
Other items	—	101
	<u>258</u>	<u>277</u>

Deferred tax assets in respect of tax losses available for offset are recognised insofar as the realisation of the relevant tax benefit through future tax profits is probable. The Group has recognised deferred tax assets amounting to 7,968 thousands of euros (2004: 6,206 thousands of euros) with respect to losses amounting to 22,765 thousands of euros (2004: 17,731 thousands of euros) to be offset in future years against taxable profits.

A breakdown of tax bases by year generated is as follows:

<u>Year</u>	<u>Base</u>	<u>Tax payable</u>	<u>Available until</u>
	(In thousands of euros)		
1999	242	85	2014
2000	7,193	2,518	2015
2001	2,391	837	2016
2002	1,428	500	2017
2003	2,592	907	2018
2004	1,413	495	2019
2005	7,506	2,626	2020
	<u>22,765</u>	<u>7,968</u>	

At 31 December 2005 the Group records deductions pending application totalling 4,929 thousands of euros (2004: 4,262 thousands of euros). These deductions mainly derive from reinvestments, research and development expenses and exports. The Group has decided not to recognise any asset in this respect as it cannot ensure their future use due to the generation of tax exempt income in significant amounts as is described above.

31. Earnings per share

Basic and diluted

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

Free translation of the consolidated annual accounts originally issued in Spanish and prepared in accordance with International Reporting Standards as adopted by the European Union. In the event of a discrepancy, the Spanish language version prevails.

**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
AND SUBSIDIARIES AT 31 DECEMBER 2005**

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

31. Earnings per share (continued)

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares to reflect the conversion of all ordinary shares that may potentially be diluted. Given that the Company does not own any class of ordinary shares that may be diluted, the diluted earnings per share coincide with the basic earnings per share.

	2005	2004
	(In thousands of euros)	
Profit attributable to the company's shareholders	41,167	23,160
Weighted average number of ordinary shares	931,600	931,600
Basic earnings per share (€ per share)	44.19	24.86

32. Dividends per share

During 2004 dividends distributed totalled 26,818 thousands of euros, which is a per share dividend amounting to €28.79. These dividends include a payment made on account in 2003 totalling 19,618 thousands of euros.

During 2005 dividends distributed totalled 12,800 thousands of euros, which is a per share dividend amounting to €13.74. In 2004 approval was provided to make an interim dividend payment totalling 12,000 thousands of euros.

33. Guarantees provided and contingencies

The Group has contingent liabilities relating to bank and other guarantees that arose during the normal course of business and the expectation is that no additional significant liability will arise apart from those cases for which provisions were made in accordance with the content of Note 24. During the normal course of the Group's activities, and as it is common among the companies operating in the engineering and construction business, it has provided guarantees to third parties totalling 445,485 thousands of euros (2004: 251,736 thousands of euros).

In accordance with the general contract conditions the Company and group companies are required to provide technical guarantees for the execution of work that may be formed in cash or through bank guarantees and must remain in place during a certain period as guarantee of the appropriate completion of the contracts.

34. Commitments

Fixed asset purchase commitments

There are no significant investment commitments relating to the purchase of assets at the balance sheet date.

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

34. Commitments (continued)

Operating lease commitments

The Group rents several premises under irrevocable operating lease agreements. These leases have variable terms, segment clauses and renewal rights.

The Group is required to provide six months advance notice for the termination of these agreements.

35. Related party transactions

Transactions with related parties in 2005 and 2004 fall within the Company's ordinary business. Transactions with related parties are as follows:

a) Transactions carried out with the Company's main shareholders

a.1) Transactions carried out with Banco Bilbao Vizcaya Argentaria Group (BBVA Group):

The Group carries out transactions with BBVA Group only with respect to its banking activity.

At 31 December 2005 and 2004 the transactions were of the following nature and amounts:

	2005	2004
	(In thousands of euros)	
Lines of credit	20,045	12,020
Borrowings	10,244	—
Guarantees granted	163,871	85,399
Letters of credit	6,667	—

The Group has opened numerous bank accounts that are necessary to carry out its ordinary business and manages a portion of its cash balances by contracting financial assets through BBVA Group.

The Group had contracted term currency transactions with BBVA Group, the value of which totalled thousands of USD 79,689 (2004: thousands of USD33,700).

The profit and loss account for each period includes the costs and revenues related to the above-mentioned transactions, which were carried out under market conditions.

a.2) Transactions carried out with Banco Santander Central Hispano Group (BSCH Group):

Banco Santander Central Hispano, S.A. was a Company shareholder until 5 October 2005. The Group carries out banking transactions with BSCH Group.

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
AND SUBSIDIARIES AT 31 DECEMBER 2005**

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

35. Related party transactions (continued)

At 31 December 2005 and 2004 the transactions were of the following nature and amounts:

	2005	2004
	(In thousands of euros)	
Lines of credit	48,141	34,600
Borrowings	37,054	18,633
Guarantees granted	120,025	63,138

The Group has opened numerous bank accounts that are necessary to carry out its ordinary business and manages a portion of its cash balances by contracting financial assets through BSCH Group.

The Group had contracted term currency transactions with BSCH Group, the value of which totalled thousands of USD 1,709 (2004: thousands of USD4,762).

The profit and loss account for each period includes the costs and revenues related to the above-mentioned transactions, which were carried out under market conditions.

b) Transactions carried out with Company Directors and Executives

The following table shows the transactions carried out with companies in which the Directors of the Group are also serving as Directors or Executives:

	2005				2004			
	Debtors	Accounts payable	Purchases	Sales	Debtors	Accounts payable	Purchases	Sales
	(In thousands of euros)							
CEPSA Group	1,019	7	40	2,536	7,988	—	30	2,787
Air Liquide	—	—	4	—	—	—	—	—
TUBACEX	—	—	—	—	—	—	232	—
Tubos Reunidos	—	—	—	—	—	—	167	—

In addition, Note 40 includes information relating to emoluments of the Directors of Técnicas Reunidas, S.A.

During the financial year 2005 the Group paid out Directors' emoluments (both fixed and variable) for a total of 2,599 thousands of euros (2004: 2.304 thousands of euros).

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
AND SUBSIDIARIES AT 31 DECEMBER 2005**

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

35. Related party transactions (continued)

c) Transactions carried out with associates included in Exhibit II

The following table shows the balances and transactions carried out with associates included in Exhibit II:

	2005				2004			
	Debtors	Accounts payable	Purchases	Sales	Debtors	Accounts payable	Purchases	Sales
	(In thousands of euros)							
Productora de Diesel, S.A. . .	—	—	—	1,562	—	—	—	—

36. Joint ventures

The Group maintains shareholdings in the joint ventures listed in Exhibit III. The amounts set out below represented the Group's interest, in accordance with the relevant percentage, in the assets, liabilities, revenues and profits of the joint ventures. These amounts have been included in the consolidated balance sheet and income statement:

	2005	2004
	(In thousands of euros)	
Assets:		
Non-current assets	622	489
Current assets	125,371	39,360
	<u>125,993</u>	<u>39,849</u>
Liabilities:		
Non-current liabilities	—	—
Current liabilities	118,430	27,451
	<u>118,430</u>	<u>27,451</u>
Net assets	7,563	12,398
Revenues	65,758	97,478
Expenses	64,978	101,615
Profit after taxes	<u>780</u>	<u>(4,137)</u>

37. UTEs

The Group maintains shareholdings in the UTEs listed in Exhibit IV. The amounts set out below represented the Group's interest, in accordance with the relevant percentage, in the assets,

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

37. UTEs (continued)

liabilities, revenues and profits of the UTEs. These amounts have been included in the consolidated balance sheet and income statement:

	<u>2005</u>	<u>2004</u>
	(In thousands of euros)	
Assets:		
Non-current assets		71
Current assets	351,001	212,789
	<u>351,001</u>	<u>212,860</u>
Liabilities:		
Non-current liabilities	—	152,829
Current liabilities	335,226	19,089
	<u>335,226</u>	<u>171,918</u>
Net assets	<u>15,775</u>	<u>40,942</u>
Revenues	230,116	171,831
Expenses	<u>214,339</u>	<u>130,695</u>
Profit after taxes	<u>15,777</u>	<u>41,136</u>

38. Environment

Given the activity in which the Group companies are involved, they have no environmental liabilities, expenses, assets, provisions or contingencies that could be significant with respect to its equity, financial situation and results. For this reason no specific breakdowns are provided in these Notes to the annual accounts regarding environmental information.

39. Events after the balance sheet date

Equity transactions

At the Extraordinary General Meeting held on 9 March 2006, shareholders unanimously adopted a resolution to distribute an extraordinary dividend totalling 48,000 thousands of euros charged against available reserves. The payment of this dividend will take place before the end of April 2006.

Disclosures regarding the entry of Tecnicas Reunidas, S.A. into the stock market

Over the past few months the Group's business has undergone significant growth due to the strong growth of the gas and oil markets, in which significant investments are being made. This trend is expected to be maintained for a prolonged period. In this market environment, together with the favourable national and international stock market situation, the Company has decided to make a

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
AND SUBSIDIARIES AT 31 DECEMBER 2005**

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

39. Events after the balance sheet date (continued)

public offering for part of its shares. In order to prepare for this operation the Company has engaged in preliminary activities consisting of meetings with the national stock market commission and contacts are being made with investment banks to study the operation, the schedule and the dynamics involved. This decision was ratified at a Board of Directors' Meeting held on 9 March 2006.

Changes in the scope of consolidation

IN 2006 the parent company sold 74.61% of its interest in the company Layar Castilla, S.A., and therefore at the date of preparation of these consolidated annual accounts the interest in this company had fallen to 25.39%. The capital gain generated on this sale and recognised in 2006 amounted to 14,380 thousands of euros, not taking into account the tax effect.

40. Other information

a) Average number of employees in the Group by category

	<u>2005</u>	<u>2004</u>
Category:		
Engineers and university graduates	895	896
Technical engineers, experts and graduate assistants	525	659
Administrative managers	425	173
Unskilled assistants	312	281
Other categories	487	277
TOTAL	<u>2,644</u>	<u>2,286</u>

Auditors' fees

The fees accrued in 2005 by PricewaterhouseCoopers Auditores, S.L. for audit and other services totalled 188 thousands of euros. In addition, the fees accrued in 2005 for other services rendered to the Group by other companies that use the PricewaterhouseCoopers trademark totalled 196 thousands of euros.

Disclosure required by Article 127 ter. of the Spanish Companies Act

The Directors of the parent company have no disclosures to make with respect to the content of Article 127 ter of the Spanish Companies Act, except for the following:

- Mr. Juan Lladó Arburúa is a Director of Initec Plantas Industriales, S.A., Initec Infraestructuras, S.A., and Empresarios Agrupados Internacional, S.A. He is also a member of Comité de Empresarios Agrupados A.I.E. All of these companies form part of Técnicas Reunidas Group.

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

40. Other information (continued)

Compensation paid to the Members of the Company's Board of Directors

The following table shows the overall compensation received by the members of the Company's Board of Directors during the year ended 31 December 2005 (received by those who were members during that year, who do not necessarily coincide with the current Directors):

- Per diems for attending Board of Director meetings 293 thousands of euros (2004: 288 thousands of euros).
- Wages and salaries: 460 thousands of euros (2004: 394 thousands of euros).

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
AND SUBSIDIARIES AT 31 DECEMBER 2005**

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

Exhibit I

Subsidiaries included in the Consolidation

Name	Address	interest		Company holding the interest	Consolidation method	Activity	Auditor
		Cost in € '000	% par value				
Técnicas Reunidas Internacional, S.A.	Madrid	120	100%	Técnicas Reunidas, S.A.	Full.	Engineering services	Not audited
Termotécnica, S.A.	Madrid	1,450	99.98%	Técnicas Reunidas Construcción y Montaje, S.A.	Full	Engineering services and machinery wholesaler	Not audited
Técnicas Reunidas Construcción y Montaje, S.A. . .	Madrid	150	100%	Técnicas Reunidas, S.A.	Full	Real estate development	Not audited
Técnicas Reunidas Ecología, S.A.	Madrid	120	100%	Técnicas Reunidas, S.A.	Full	Engineering services	PwC
Técnicas Reunidas Metalúrgicas, S.A.	Madrid	120	100%	Técnicas Reunidas, S.A.	Full	Engineering services	Not audited
Técnicas Reunidas Trade Panamá, S.A.	Panama	46	100%	Técnicas Reunidas, S.A.	Full	Dormant company	Not audited
Técnicas Siderúrgicas, S.A.	Madrid	124	100%	Técnicas Reunidas Construcción y Montaje, S.A.	Full	Engineering services	Not audited
Técnicas Reunidas Proyectos Internacionales, S.A. .	Madrid	1,503	100%	Técnicas Reunidas, S.A.	Full	Engineering services	Not audited
Española de Investigación y Desarrollo, S.A.	Madrid	438	100%	Técnicas Reunidas, S.A.	Full	Engineering services	Not audited
Layar, S.A.	Madrid	8,164	100%	Técnicas Reunidas, S.A.	Full	Real estate	Not audited
Layar Castilla, S.A.	Madrid	2,522	100%	Layar, S.A.	Full	Real estate development	Not audited
Layar Real Reserva, S.A.	Madrid	349	100%	Layar, S.A.	Full	Real estate	Not audited
Eurocontrol, S.A.	Madrid	472	80%	Layar, S.A.	Full	Inspection, quality control, technical advisory services	Other
Initec Plantas Industriales, S.A.	Madrid	4,613	100%	Técnicas Reunidas, S.A.	Full	Engineering services	PwC
Initec Infraestructuras, S.A.	Madrid	1,322	100%	Técnicas Reunidas, S.A.	Full	Engineering services	PwC
Initec Chile, S.A.	Chile	1	100%	Initec Plantas Industriales, S.A.	Full	Engineering services	PwC
ReciclAguilar, S.A.	Madrid	12	80%	Técnicas Reunidas, S.A.	Full	Engineering services	PwC
Técnicas Reunidas Gulf L.T.D.	Yedah	412	75%	Técnicas Reunidas, S.A.	Full	Engineering services	PwC
TR Engineering LLC(*)	Muscat	400	49%	Initec Plantas Industriales, S.A.	Full	Engineering services	PwC
Pegasides SICAV de S.A.	Madrid	36,139	99%	Técnicas Reunidas, S.A.	Full	Financial	Deloitte

(*) Companies acquired during the year and/or acquisition of additional stakes in companies already included in the previous year's consolidation. The entry of these companies into consolidation has represented aggregate additional sales totalling 4,812 thousands of euros.

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

Exhibit II

Associates included in the Consolidation

<u>Name</u>	<u>Address</u>	<u>interest</u>		<u>Company holding the interest</u>	<u>Consolidation method</u>	<u>Activity</u>	<u>Auditor</u>
		<u>Cost in € '000</u>	<u>% par value</u>				
Explotaciones Varias, S.A.	Seville	1,790	50.00%	Layar Castilla, S.A.	Equity	Agricultural, livestock and hunting operations	PwC
Empresarios Agrupados, A.I.E.	Madrid	190	42.48%	Técnicas Reunidas, S.A.	Equity	Engineering services	Not audited
Empresarios Agrupados Internacional, S.A. . . .	Madrid	340	42.48%	Técnicas Reunidas, S.A.	Equity	Engineering services	Not audited
Ibérica del Espacio, S.A.	Madrid	134	20.71%	Técnicas Reunidas, S.A.	Equity	Engineering services	Not audited
Green Fuel Corporation, S.A.	Madrid	157	20.93%	Técnicas Reunidas, S.A.	Equity	Project analysis and execution	Not audited
Productora de Diesel, S.A.	Viña del Mar	4,558	27.50%	Técnicas Reunidas Metalúrgicas, S.A.	Equity	Project analysis and execution	PwC

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

Exhibit III

Joint ventures included in the Consolidation

Name	Address	interest		Partner in the combined business	Consolidation method	Activity	Auditor
		Cost in € '000	% par value				
Heymo Ingeniería, S. A.	Madrid	517	39.98%	Técnicas Reunidas, S. A.	Proportional	Engineering services	KPMG
KJT Engeharia Materiais	Madeira	2	33.33%	Técnicas Reunidas, S. A.	Proportional	Engineering services	Deloitte
Damietta Project Management Co.	London	0	33.33%	Técnicas Reunidas, S. A.	Proportional	Engineering services	KPMG
Damietta LNG Construction	Damietta	2,941	33.33%	Técnicas Reunidas, S. A.	Proportional	Engineering services and project execution	E&Y
Proyectos Ebramex, S. de R.L. de C.V. ^(*)	Mexico City	0	33.33%	Técnicas Reunidas, S. A.	Proportional	Engineering services	PwC
Minatrico, S. de R.L. de C.V. ^(*)	Mexico City	0	33.33%	Técnicas Reunidas, S. A.	Proportional	Engineering services	PwC
Construcción e Ingeniería D.I. Ltda. ^(*)	Santiago	1	50.00%	Initec Chile, S.A.	Proportional	Engineering services	Other
Construcción e Ingeniería FIM Ltda. ^(*)	Santiago	1	33.33%	Initec Chile, S.A.	Proportional	Engineering services and project execution	Not audited
Construcción e Ingeniería FI Ltda. ^(*)	Santiago	1	50.00%	Initec Chile, S.A.	Proportional	Engineering services and project execution	Not audited
TPC Vietnam ^(*)	Dung Quat	—	20.00%	Técnicas Reunidas, S.A.	Proportional	Engineering services and project execution	Not audited

(*) Companies acquired during the year and/or acquisition of additional stakes in companies already included in the previous year's consolidation. The entry of these companies into consolidation has represented aggregate additional sales totalling 34,635 thousands of euros.

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**CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A.
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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS (continued)

(In thousands of euros)

Exhibit IV

Companies included in consolidation have an interest in the following UTEs

Name of the UTE	Interest	Name of the UTE	Interest
UTE INITEC/TR PLANTAS HDT Y HCK	100%	UTE TR/HEYMO ADPI	40%
UTE INITEC/TR JU'AYMAH GPE	100%	UTE TR/ANETO/FECOR Pº MARITIMO	33%
UTE TR/INITEC/DRAGADOS ARGELIA	67%	UTE TR/SATE MALLORCA	50%
UTE TR/EC ESMERALDAS PESETAS	100%	UTE TR/ARDANUY SEÑALIZACION	50%
UTE TR/EC ESMERALDAS ECUADOR	100%	UTE TR/PYCSA PRESA ARENOSO	50%
UTE TR/EUROCONTROL PROY.ASPPC	100%	UTR TR/EAISA/GHESA TERMOPE	41%
UTE TR/LOGPLAN A.TAENA	55%	UTE TR/DF BARRANCO	50%
UTE TR/TT HORNOS RUSIA	95%	UTE TR/DF AS PONTES	50%
UTE TR/SEG PROY.NT AENA	70%	UTE TRISA/EUROCONTROL OX. DE ETILENO	100%
UTE TR/INITEC KJT PR. LNG	100%	UTE TRISA/EUROCONTROL ACERIA DE WISCO	100%
UTE TR/INITEC DAMIETTA LNG	100%	UTE TRISA/EUROCONTROL AC. WUHAN	100%
UTE TR/IONICS RAMBLA MORALES	40%	UTE TRISA/EUROCONTROL ETILENO	100%
UTE TR/TRIMTOR EDAR LIBRILLA	50%	UTE TRISA/EBRAMEX SUMINISTROS	50%
UTE TR/PYCSA LOS BOTONES	50%	UTE TRISA/MINATRICO SUMINISTROS	50%
UTE TR/PYCSA CUEVAS DEL CAMPO	50%	UTE DALIAS	65%
UTE TR/TRIMTOR SECTOR TOYO-1	50%	UTE SA POBLA	50%
UTE TR/RTA VILLAMARTIN	50%	UTE SANTIAGO	50%
UTE TR/SERCOAL/PROGALL VIVIENDAS	40%	UTE AUTOVIA SANTIAGO-LUGO	50%
UTE TR/ARDANUY ALGECIRAS	70%	UTE VALENCIA	63%
UTE TR/SEG PORTAS	50%	UTE PRESA ITOIZ	50%
UTE TR/INITEC MINTRA TREN MOSTOLES	50%	UTE LAMELA	25%
UTE TR/INTERCONTROL VARIANTE PAJARES	80%	UTE FARNALS	50%
UTE TR/ALTAMARCA/HMF C.ALCOBENDAS	34%	UTE L'ELIANA	50%
UTE TR/GDF CTCC PUERTO DE BARCELONA	50%	UTE LOTETA	50%
UTE TR/INITEC EBRAMEX INGENIERIA	51%	UTE INITEC/INTRAESA	50%
UTE TR/INITEC MINATRICO INGENIERIA	51%	UTE INITEC/PYCSA ALBERCA DEL JUCAR	70%
UTE TR/ASFALTOSY CONS.APARCAM.ALCOBENDAS	50%	UTE INITEC/ANETO CONSULTORES MANACOR	50%
UTE TR/INITEC PROYECTO DGC CHILE	100%	UTE TR/INITEC MINTRA	50%
UTE TR/INITEC JV HAWIYAH GPE	100%	UTE INITEC/INTECSA-INARSA PUESTA EN CARGA ITOIZ	50%
UTE TR/CTCI GUANDONG EO/EG	90%	UTE INIPSA-EPTISA-INITEC INFRAESTRUCTURAS ARVE 2004	25%
UTE TR/CTCI JIANGSU SERVICIOS	90%	UTE EPYSA-INITEC	40%
UTE TR/CTCI JIANGSU SUMINISTROS	90%	UTE INITEC INFRAESTRUCTURAS S.A.-GEOCART	50%
UTE TR/SENER PROEYCTO HPP GEPESA	60%	UTE INITEC INFRAESTRUCTURAS TRAMO I	50%
UTE TR/FW/SENER GEPESA	33%	UTE INITEC-PROVER	50%
UTE TR/INITEC/INTECSA INTEIN	33%	UTE TIS	33%
UTE PLANTAS RSU MEIRAMA	14%	UTE TZI HUELVA	30%
UTE TR/FERROVIAL LA PLANA DEL VENT	58%	UTE TZI CARTAGENA	30%
UTE TR/INITEC/EMMSA GASODUCTO MAGREB	50%	UTE PAMPILLA	50%
UTE INITEC/TR MILD HYDROCRACKING	100%	UTE COGENERACION	50%
UTE TORRE COTILLAS	50%	UTE HUELVA 4 LNG	27%
UTE CAMPO DE ESPINARDO	50%	UTE FW/INITEC PLANTAS/MAN FERROSTAAL(ACONCAGUA-I)	33%
UTE TR/IONICS EL REVENTON	45%	UTE FW/INITEC PLANTAS(ACONCAGUA-II)	50%
UTE TR/MASTER APM BARCELONA	50%	UTE TRSA/INITEC INDUSTRIAL MINA-TRICO	49%
UTE TR/SEG BOBADILLA	50%	UTE TRSA/INITEC INDUSTRIAL EBRAMEX	49%

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Técnicas Reunidas, S.A.

1. We have audited the consolidated financial statements of Técnicas Reunidas, S.A. and its subsidiaries, consisting of the consolidated balance sheets as of December 31, 2004 and 2003, the consolidated income statements and the related notes to the consolidated financial statements for the years then ended, the preparation of which is the responsibility of the Directors of Técnicas Reunidas, S.A. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain, which require the examination, on a test basis, of evidence supporting the consolidated financial statements and an evaluation of their overall presentation, the accounting principles applied and the estimates made.
2. As mentioned in Note 1, the consolidated financial statements for 2004 and 2003 have been drawn up on the basis of the consolidated statutory annual accounts of Técnicas Reunidas, S.A. and its subsidiaries for the years ended December 31, 2004 and 2003. The accompanying consolidated financial statements have been drawn up solely for the purposes of presenting in a single document the consolidated figures of Técnicas Reunidas, S.A. and its subsidiaries for inclusion in an International Offering Memorandum, and do not constitute statutory annual accounts according to Spanish legislation.
3. In our opinion, the accompanying consolidated financial statements for the years 2004 and 2003 referred to above present fairly, in all material respects, the consolidated shareholders' equity and consolidated financial position of Técnicas Reunidas, S.A. and its subsidiaries as of December 31, 2004 and 2003, and the consolidated results of its operations for the years then ended, and contain all the information necessary for their interpretation and comprehension in accordance with generally accepted accounting principles in Spain which have been applied on a consistent basis with that of the preceding year.
4. This report has been prepared at the request of Técnicas Reunidas, S.A. in relation to the International Offering Memorandum in connection with the listing of the Company's shares on the stock exchange network of the Madrid, Barcelona, Bilbao and Valencia stock markets and should not be used for any other purpose or published in any other offering documentation other than the International Offering Memorandum without our previous written consent.

PricewaterhouseCoopers Auditores, S.L.

Javier Lapastora Turpín
Partner

For the consolidated financial statements for the year ended December 31, 2004, April 5, 2005

For the consolidated financial statements for the year ended December 31, 2003, March 31, 2004

TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES

**Consolidated Financial Statements
as at and for the years ended
31 December 2004 and 2003**

TÉCNICAS REUNIDAS GROUP
CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2004 AND 2003
(Thousand euros)

<u>Assets</u>	<u>31.12.04</u>	<u>31.12.03</u>
A) Uncalled share capital	39	47
B) Fixed assets		
I. Formation expenses	1	2
II. Intangible assets	6.251	5.520
1. Intangible assets and rights	19.783	17.360
2. Provisions and amortisation	(13.532)	(11.840)
III. Tangible fixed assets	9.609	8.520
1. Land and buildings	991	1.137
2. Plant and machinery	5.213	4.910
3. Other fixed assets	17.322	15.342
5. Provisions and depreciation	(13.917)	(12.869)
IV. Financial investments	11.580	6.742
1. Shareholdings consolidated using equity method and non- consolidated Group companies	10.011	5.086
3. Long-term securities portfolio	369	340
4. Other loans	1.255	1.369
5. Provisions	(55)	(53)
V. Parent Company shares	—	123
Total B	27.441	20.907
C) Goodwill on consolidation	999	1.278
D) Deferred expenses	10	18
E) Current assets		
II. Inventories	10.876	8.842
III. Debtors	353.915	286.039
1. Trade debtors for sales and services rendered	312.359	240.061
2. Companies consolidated using equity method	3.216	1.739
3. Other debtors	42.362	47.334
4. Provisions	(4.022)	(3.095)
IV. Current asset investments	121.305	182.017
1. Short-term securities portfolio	112.168	174.807
2. Other loans	10.699	9.614
3. Provisions	(1.562)	(2.404)
VI. Cash at bank and in hand	53.544	34.976
VII. Prepayments and accrued income	221	1.539
Total E	539.861	513.413
General total	568.350	535.663

TÉCNICAS REUNIDAS GROUP
CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2004 AND 2003 (continued)
(Thousand euros)

<u>Liabilities</u>	<u>31.12.04</u>	<u>31.12.03</u>
A) Capital and reserves		
I. Share capital	5,590	5,687
II. Share premium account	8,691	8,691
III. Other Parent Company reserves	60,910	59,012
1. Distributable reserves	59,773	57,752
2. Non-distributable reserves	1,137	1,260
V. Reserves in companies consolidated using full or proportional methods	36,655	29,869
VI. Reserves in companies consolidated using equity method	1,867	1,076
VII. Differences on exchange	(873)	23
VIII. Profit/(loss) attributable to Parent Company	30,073	36,403
1. Consolidated profit/(loss)	30,223	36,534
2. Profit/(loss) attributable to minority interests	(150)	(131)
IX. Interim dividend	—	(19,618)
Total A	<u>142,913</u>	<u>121,143</u>
B) Minority interests	<u>1,135</u>	<u>945</u>
D) Deferred income		
1. Capital grants	3,672	3,891
2. Other deferred income	—	—
Total D	<u>3,672</u>	<u>3,891</u>
E) Provisions	<u>51,763</u>	<u>57,569</u>
F) Creditors falling due after more than one year		
II. Amounts owed to non-consolidated Group companies	412	—
IV. Other creditors	312	482
Total F	<u>724</u>	<u>482</u>
G) Creditors falling due within one year		
I. Bank loans and overdrafts	18,772	11,531
II. Amounts owed to companies consolidated using equity method	1,473	721
III. Amounts owed to Group companies	277	108
IV. Trade creditors	325,811	301,947
V. Other non-trade creditors	8,439	33,134
VI. Trade provisions	8,595	3,913
VII. Accruals and deferred income	4,776	279
Total G	<u>368,143</u>	<u>351,633</u>
General total	<u><u>568,350</u></u>	<u><u>535,663</u></u>

TÉCNICAS REUNIDAS GROUP
CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED
31 DECEMBER 2004 AND 2003
(Thousand euros)

	<u>31.12.04</u>	<u>31.12.03</u>
A) Operating expenses		
1. Reduction in inventories	—	—
2. Materials consumed in operations and other external expenses	344,484	304,028
3. Employee benefit expense	107,995	100,786
4. Depreciation and amortisation	2,994	2,623
5. Change in trade provisions	1,347	(774)
6. Other operating charges	121,529	101,308
Total operating expenses	<u>578,349</u>	<u>507,971</u>
B) Operating income		
1. Revenues	591,943	520,808
2. Increase in inventories	4,632	367
3. Own work capitalised	1,434	875
4. Other operating income	3,188	4,580
Total operating income	<u>601,197</u>	<u>526,630</u>
I. Operating profit	<u>22,848</u>	<u>18,659</u>
A) Financial expense		
7. Financial expense	920	716
8. Losses on current asset investments	48	1,211
9. Changes in provisions for financial investments	(843)	(2,885)
10. Losses on exchange	1,755	3,620
Total financial expense	<u>1,880</u>	<u>2,662</u>
B) Financial income		
5. Income from shareholdings	214	42
6. Other financial income	2,587	3,069
7. Profit on current asset investments	668	13
8. Gains on exchange	1,244	802
Total financial income	<u>4,713</u>	<u>3,926</u>
II. Financial income and expense	<u>2,833</u>	<u>1,264</u>
10. Share in results obtained by associates	62	78
12. Amortisation of goodwill on consolidation	(279)	(279)
III. Profit from ordinary activities	<u>25,464</u>	<u>19,722</u>
A) Extraordinary expenses		
14. Loss on disposal of fixed assets	10	3
15. Changes in trade provisions	—	(218)
19. Extraordinary expenses and losses	771	306
Total extraordinary expenses	<u>781</u>	<u>91</u>
B) Extraordinary income		
12. Profit on fixed assets	201	16,553
16. Capital grants released to income	243	119
17. Extraordinary income or profit	470	338
Total extraordinary income	<u>914</u>	<u>17,010</u>
IV. Extraordinary items	<u>133</u>	<u>16,919</u>
V. Consolidated profit before taxes	<u>25,597</u>	<u>36,641</u>
20. Corporate income tax	4,626	(107)
VI. Consolidated profit after taxes	<u>30,223</u>	<u>36,534</u>
18. Profit/(loss) attributable to minority interests	(150)	(131)
VII. Profit attributable to Parent Company	<u>30,073</u>	<u>36,403</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003

1. JUSTIFICATION OF THE PRESENTATION OF THESE CONSOLIDATED FINANCIAL STATEMENTS

Técnicas Reunidas, S.A. is in the midst of a public offering process to become listed on the stock exchange. The purpose of preparing these consolidated financial statements and notes thereto is to provide information on the consolidated Financial Statements for 2003 and 2004 in a single document to be included in the prospectus addressed to international markets.

These consolidated Financial Statements and the Notes thereto have been prepared under generally accepted accounting principles in Spain.

These consolidated Financial Statements have been prepared for the years ended 31 December 2003 and 2004 and the notes are the result of the compilation of the Consolidated Statutory Annual Accounts of Técnicas Reunidas, S.A. for the years ended 31 December 2003 and 2004 and do not constitute statutory annual accounts according to Spanish legislation.

2. TÉCNICAS REUNIDAS, S. A. AND SUBSIDIARIES

Técnicas Reunidas, S.A. and Subsidiaries (the Group) form an integrated group of service sector companies that commenced business in 1960.

3. TÉCNICAS REUNIDAS, S. A.

Técnicas Reunidas, S. A. was formed in 1960. Its registered office is at c/ Arapiles 14 in Madrid. The Parent Company's core business is the study and execution of engineering projects.

4. SUBSIDIARIES

Subsidiaries are classified as follows:

- a) Dependent companies: classified as such when Técnicas Reunidas, S.A. directly or indirectly holds a majority of voting rights.
- b) Multi-group companies: non-dependent companies that are managed by Group companies that hold an interest together with non-Group companies.
- c) Associated companies: classified as such when Técnicas Reunidas, S.A. holds a direct or indirect shareholding of at least 20% or 3% in the case of listed companies.

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

5. SCOPE OF CONSOLIDATION

The following tables contains details of the consolidated companies as at 31 December 2004 and 31 December 2003 consecutively:

<u>Name</u>	<u>Reg'd office</u>	<u>Direct interest held by Parent Company</u>	<u>Indirect interest</u>	<u>Total</u>	<u>Majority shareholder</u>	<u>Activity</u>
Dependent companies:						
Técnicas Reunidas Internacional, S. A. . .	Madrid	100.00%	—	100.00%	Técnicas Reunidas, S. A.	Engineering services
Termotécnica, S. A.	Madrid	39.98%	60.00%	99.98%	Proyectos Internacionales, S.A.	Engineering services and machinery wholesaler
Técnicas Reunidas Construcción y Montaje, S.A.	Madrid	100.00%	—	100.00%	Técnicas Reunidas, S.A.	Real estate
Técnicas Reunidas Ecología, S. A.	Madrid	100.00%	—	100.00%	Técnicas Reunidas, S.A.	Engineering services
Técnicas Reunidas Metalúrgicas, S.A. . . .	Madrid	100.00%	—	100.00%	Técnicas Reunidas, S.A.	Engineering services
Técnicas Reunidas Trade Panamá, S. A. .	Panama	100.00%	—	100.00%	Técnicas Reunidas, S.A.	Dormant
Técnicas Siderúrgicas, S. A.	Madrid	—	100.00%	100.00%	Proy. Internacionales, S.A.	Engineering services
Técnicas Reunidas Proyectos Internacionales, S. A.	Madrid	100.00%	—	100.00%	Técnicas Reunidas, S.A.	Engineering services
Española de Investigación y Desarrollo, S. A.	Madrid	100.00%	—	100.00%	Técnicas Reunidas, S.A.	Engineering services
Layar, S.A.	Madrid	100.00%	—	100.00%	Técnicas Reunidas, S.A.	Real estate
Layar Castilla, S.A.	Madrid	32.00%	68.00%	100.00%	Layar, S.A.	Real estate
Layar Real Reserva, S.A.	Madrid	—	100.00%	100.00%	Layar, S.A.	Real estate
Eurocontrol, S.A.	Madrid	—	80.00%	80.00%	Layar, S.A.	Inspection, quality control and technical consultancy
Initec Plantas Industriales, S.A. (**) . . .	Madrid	100.00%	—	100.00%	Técnicas Reunidas, S.A.	Engineering services
Initec Infraestructuras, S.A. (**)	Madrid	100.00%	—	100.00%	Técnicas Reunidas, S.A.	Engineering services
Initec Chile, S.A. (**)	Chile	—	100.00%	100.00%	Initec Plantas Industriales, S.A.	Engineering services
ReciclAguilar, S.A. (*)	Madrid	80.00%	—	80.00%	Técnicas Reunidas, S.A.	Engineering services
Técnicas Reunidas Gulf L.T.D. (**)	Yedah	75.00%	—	75.00%	Técnicas Reunidas, S.A.	Engineering services

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

5. SCOPE OF CONSOLIDATION (continued)

Name	Reg'd office	Direct interest held by Parent Company	Indirect interest	Total	Majority shareholder	Activity
Multi-group companies/Joint ventures (UTE):						
Heymo Ingeniería, S. A.	Madrid	39.98%	—	39.98%	Técnicas Reunidas, S. A.	Engineering services
TR/EU Consortium	Quito	95.00%	4.00%	99.00%	Técnicas Reunidas, S. A.	Project fulfilment
KJT Engeharia Materiais	Madeira	33.33%	—	33.33%	Técnicas Reunidas, S. A.	Engineering services
Damietta Project Management Co.	London	33.33%	—	33.33%	Técnicas Reunidas, S. A.	Engineering services
Damietta LNG Construction	Damietta	33.33%	—	33.33%	Técnicas Reunidas, S. A.	Engineering services, project construction
Associated companies:						
Explotaciones Varias, S.A.	Madrid	—	50.00%	50.00%	Layar Castilla, S.A.	Agriculture and hunting operations
Empresarios Agrupados, A. I. E.	Madrid	34.4%	8.08%	42.48%	Técnicas Reunidas, S. A.	Engineering services
Empresarios Agrupados Internacional, S. A.	Madrid	34.4%	8.08%	42.48%	Técnicas Reunidas, S. A.	Engineering services
Ibérica del Espacio, S.A.	Madrid	16.71%	4.00%	20.71%	Técnicas Reunidas, S.A.	Engineering services
Green Fuel Corporation, S.A. (**)	Madrid	20.93%	—	20.93%	Técnicas Reunidas, S.A.	Project study and execution
Productora de Diesel, S.A. (**)	Spain	—	27.50%	27.50%	Técnicas Reunidas Metalúrgicas, S.A.	Project fulfilment

(*) Included in consolidation scope in 2003

(**) Included in consolidation scope in 2004

a) In 1999 the Company entered into negotiations to acquire a shareholding in Initec, S.A. and at 31 December 1999 K€3,756 had been paid on account. In March 2000 the transaction ended with the acquisition of a 50% interest in Initec, S.A., for which an additional K€2,133 was paid in 2000. Although the shares held by Técnicas Reunidas represent 50% of the Company, under agreements between the shareholders of Initec, S.A., this holding was acquired by purchasing two of Initec's operating divisions: Industrial Plants and Infrastructures, which were fully owned and managed by Técnicas Reunidas.

In 2004, Initec, S.A. was split into four new companies named Initec Infraestructuras S.A., Initec Plantas Industriales S.A., Initec Energía S.A. and Initec Nuclear S.A.. At 31 December 2004, Técnicas Reunidas S.A. holds all the shares in the first two companies, which are therefore included in the consolidation scope.

b) In addition to the above-mentioned companies, in 2004 Initec Chile, S.A. and Técnicas Reunidas Gulf Ltd were set up and included in the consolidation scope.

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

5. SCOPE OF CONSOLIDATION (continued)

c) In 2003 the company ReciclAguilar S.A. was formed and included in the scope of consolidation.

6. COMPANIES EXCLUDED FROM CONSOLIDATION

The following Group companies are excluded from consolidation:

a) Dependent companies

The Madrid-based dormant dependent company Comercial Técnicas Reunidas, S.L., in which the Company holds a 100% interest valued at K€3, has been excluded from consolidation for the period ending 31 December 2004, as have Eurocivil, S.A. and Moody Totrup, which are investee companies of Eurocontrol, due to their insignificant size and the lack of up-to-date financial information at the preparation date of these financial statements.

b) Multi-group companies / Joint ventures (JVs)

The Group's balance sheet and profit and loss account as at 31 December 2004 do not contain the accounts relating to the joint ventures listed in Note 24.8, which does not affect the true and fair view of the Group's financial position.

c) Associated companies

The dormant associated company Ibérica de Logística de Sistemas, S.A., in which the Company holds a 41.66% interest valued at K€0.15, has not been included in consolidation as at 31 December 2004 because its figures are not significant for the Group.

7. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) Basis of presentation

The consolidated financial statements have been prepared based on the individual financial statements of the consolidated companies for the year ended 31 December 2004. They have been prepared in accordance with accounting principles generally accepted in Spain as established by current legislation.

b) First consolidation

The year ended 31 December 1991 was the first year in which Técnicas Reunidas Group was required to prepare consolidated financial statements.

c) Consolidation method

The full consolidation method is applied to dependent companies and the proportional consolidation method to multi-group companies. The equity method is applied to investments in associated companies.

d) Translation of financial data

In order to consolidate the accounts of subsidiaries denominated in foreign currency, their financial statements have been translated into euros at the year-end exchange rate for all assets and

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

7. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

liabilities, at the average exchange rate for income and expenses and at the historical rate for capital and reserves.

e) Reporting currency

The amounts contained in the consolidated financial statements are expressed in thousands of euros (K€).

f) Comparability

The accompanying consolidated financial statements have been prepared in accordance with accounting principles similar to those applied in the previous year.

8. ACCOUNTING POLICIES

a) Difference on first consolidation

The difference on first consolidation consists of the difference between the book value of the Parent Company's shareholding (formed by the shareholding's acquisition price, less any adjustments in value carried out before the first consolidation) and the value of the proportional part of the dependent company's shareholders' equity attributable to that shareholding at the acquisition date.

Goodwill on consolidation consists of the positive difference on first consolidation less any value adjustments affecting the dependent company's assets and liabilities. Goodwill on consolidation is amortised on a straight-line basis over the period in which the investment is expected to be recovered which, for acquisitions made to date, does not exceed twenty years.

Negative consolidation differences consist of the negative difference on first consolidation less any value adjustments affecting the dependent company's assets and liabilities. The negative consolidation differences arising in 1991, under the provisions of legislation governing the preparation of consolidated financial statements, are presented in the following items: "Reserves in companies consolidated using full or proportional methods" and "Reserves in companies consolidated using equity method". Those arising in future years are recorded under "Negative differences on consolidation".

b) Transactions between consolidated companies

Credits, debits, income and expenses arising between companies included in the scope of consolidation have been eliminated.

All results arising from internal transactions are deferred until realised with third parties outside the Group.

The elimination of the results of internal transactions carried out during the year affects "Consolidated profit/(loss) for the year", while the elimination of results deriving from prior-year internal transactions affects "Reserves" in the case of the Parent Company and "Consolidation reserves" in the case of subsidiaries.

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

8. ACCOUNTING POLICIES (continued)

- c) Consistency of the individual account items recorded by Group companies

The individual financial statements prepared by the consolidated Group companies relate to the same closing date and apply the same accounting policies as expressed in these notes to the consolidated financial statements.

- d) Intangible fixed assets

Intangible fixed assets are stated at acquisition price or production cost. They are amortised on a straight-line basis over their estimated useful lives. In the case of losses due to obsolescence or impairment, provisions for amortisation or book value adjustments are made, respectively.

The following specific methods are applied:

—Research and development expenses on unfinished projects:

These amounts are expensed in the year they are incurred. Items relating to specific projects are capitalised at the year end when the projects are expected to be technically feasible and financial and commercially profitable. The Group's policy is to transfer the expense balance to the corresponding intangible fixed asset account, if the research project is successful, and to expense unsuccessful projects during the year.

—Research and development expenses on finished projects:

This item includes the expenses for completed research and development projects that are expected to be economically and commercially profitable. These expenses are amortised on a straight-line basis over a maximum period of five years as from the project completion date.

At each year end, an analysis is performed to determine whether anticipated future operating income will be sufficient to cover capitalised expenses. If this is not the case, the unamortised balance in Intangible assets is charged to losses.

—Software:

This item records the ownership of and the right to use computer applications, either purchased from third parties or designed by the Company, where the software is expected to remain in use for a number of years.

The balance is amortized on a straight-line basis over four years as from the date the software is put into use.

Software maintenance is expensed during the year.

—Patents, licenses, trademarks and similar items:

This item includes the amount paid for the ownership of or right to use various types of industrial property. The expense is amortised on a straight-line basis provided they continuously decline in value or the period of use is limited. Otherwise, an impairment method is applied.

—Goodwill:

This heading includes all the Group's goodwill generated on acquisitions for consideration.

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

8. ACCOUNTING POLICIES (continued)

The relevant value is determined as the difference between the amount paid to totally or partially acquire a company and the sum of the identified values of individual assets acquired, less any liabilities assumed on acquisition.

Goodwill is amortised on a straight-line basis over the period during which it contributes to the obtainment of income, subject to a maximum of 20 years.

—Finance leases:

The rights derived from finance lease agreements are recorded as intangible assets at the cash value of the asset concerned. Total outstanding lease instalments plus the amount of the purchase option are recorded under liabilities. The difference between the two figures, which represents the financial expense arising on the transaction, is recorded as a deferred expense and taken to the profit and loss account each year in accordance with a financial method. Assets being acquired under finance leases are amortised following the same methods as those applied to similar tangible fixed assets.

e) **Tangible fixed assets**

Tangible fixed assets are stated at acquisition price.

Costs relating to the renovation, extension and improvement of tangible fixed assets are considered to increase in book value when they give rise to an increase in the asset's capacity or productivity or an extension of their useful life, providing the net book value of the replaced elements can be determined.

Tangible fixed assets are depreciated on a straight-line basis over the useful lives of the assets concerned, based on the actual decline in value caused by wear and tear. As a general rule, the straight-line method is applied. In case of obsolescence, the appropriate provisions for declines in value are recorded.

The rates used to calculate the depreciation of tangible fixed assets are as follows

<u>Item</u>	<u>Depreciation rate</u>
Buildings and industrial premises	2-4%
Plant and machinery	10-20%
Complex and general installations	6-8%
Furniture and office equipment	10%
Computers	25%
Vehicles	14%
Other fixed assets	10-15%

f) **Securities**

Long- and short-term investments in fixed and variable income securities are stated at the acquisition price paid on the subscription or purchase date.

In the case of shares listed on an organised secondary stock market, when the market value at the year end is less than the acquisition price, the necessary provisions are recorded in order to reflect a decline in value. Other securities are stated at acquisition cost less the provisions necessary to reflect any declines in value.

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

8. ACCOUNTING POLICIES (continued)

The Group recognises capital gains at the time they are realised. Financial income is calculated at the amount accrued during the financial year under consideration.

g) Deposits and guarantees

This item includes deposits provided in the course of current operations when no recovery difficulties are anticipated.

h) Non-trade creditors and debtors

Non-trade debtors falling due within and after one year are recorded at the amount disbursed. Interest accruing during the period is treated as income for the year.

The relevant value adjustments are made to cover the risk of bad debts.

i) Inventories

—Work in progress:

This account records direct costs and the proportional part of indirect costs arising during the execution period of fixed-price engineering projects.

—Cost of submitting bids

The Company capitalises costs incurred to submit bids until the relevant contract is awarded, at which time these costs are included in projects concerned.

j) Grants

—Capital grants

Outright capital grants are stated at the amount received. They are released to profit and loss in proportion to the depreciation charged on the assets which they finance.

—Operating grants

These are directly taken to profit and loss for the year in which they are received.

k) Provisions

—Provisions for liabilities and charges

This item records the estimated amount necessary to cover contingent liabilities deriving from outstanding claims, indemnities and obligations. This account also includes total losses on projects expected to generate a negative final margin.

—Trade provisions

This includes an estimate of potential costs yet to be recorded, which have been allocated to invoiced work in progress and recognised as income (recognition of profit and loss in accordance with letter o). In the case of significant projects, the Group maintains provisions for the total expected cost in addition to the relevant guarantees provided, and in accordance with estimates based on the prudence principle. Any excess is taken to profit and loss when the liabilities that may derive from these risks elapse.

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

8. ACCOUNTING POLICIES (continued)

l) Long and short-term creditors

Debits and credits originating from the Group's trading activities are stated at their nominal value. If the maturity period exceeds one year, the interest included in the value of the transaction is deferred and charged to results using a financial method.

m) Corporate income tax

Corporate income tax is recorded as an expense for the year. The expense is calculated by applying the tax rate to reported profits before taxes, deducting any permanent differences, tax credits and allowances to which each Group company. Timing differences arising during the year are recorded as a deferred tax asset or liability by each company, and tax credits are recorded on the same basis provided their future application is reasonably assured.

The Group companies have not recorded any deferred tax assets or liabilities for timing differences arising in years prior to the entry into force of Law 19/89 (25 July) on the reform and adaptation of mercantile legislation to EEC Directives.

Tax credits and deductions and the tax effect of applying tax-loss carryforwards are treated as a reduction in the corporate income tax expense for the year in which they are applied or offset.

All deferred tax liabilities are fully provisioned, even though they may not be expected to reverse in the foreseeable future. The provision is adjusted to reflect any changes in the corporate income tax rate. Deferred tax assets are only recorded to the extent that it is reasonably certain that they will be realized in a maximum of ten years, and beyond that time only when that there are compensating deferred tax liabilities.

n) Differences on exchange

Balances and transactions denominated in foreign currency are converted into euros at the exchange rate in force when the transactions take place. At the year end, gains on exchange are recognised as deferred income until they are realised and losses on exchange are expensed at the year-end exchange rate.

Transactions hedged by futures operations are recorded once included in the derivative settlement cost and until the derivative is cancelled or the futures contracts is no longer renewed.

o) Recognition of profit and loss

Trading results are recognised using a number of methods, depending on the type of activity, as follows:

—Engineering services

1) Administration contracts:

Under these contracts, the customer must pay the direct costs incurred plus a fixed margin to cover indirect costs and a standard mark-up. The profit on each project is recognised on a percentage of completion basis.

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

8. ACCOUNTING POLICIES (continued)

2) Percentage-of-completion contracts:

From 1 January 1998, the percentage-of-completion method is applied to fixed-price contracts in which there are no exceptional or extraordinary contingencies in the course of the project or the nature of the projects in question is not exceptional. Income is determined using this method based on a percentage of the total income stipulated in the contract, which is calculated in accordance with the relationship between costs incurred to date and total forecast contract costs.

In order to ensure consistency where possible and full compliance with technical engineering specifications affecting percentage of completion, the Company includes completion schedules in all subcontracting arrangements with third parties for materials or equipment under which the costs of the contracts are passed on within the stipulated completion deadlines. The completion of the envisaged technical phases gives rise to the recognition of liabilities in respect of invoices pending receipt and to income based on percentage of completion and pending billing to customers. For reasons of prudence, these progress billings are calculated in such a way that they do not give rise to the recognition of operating margins once total estimated project costs have been taken into account.

3) Economic interest groupings and joint ventures.

The results attributed to members of joint ventures and economic interest groupings are recognised in accordance with the regulations governing each case. In general, when exceptional or extraordinary risks could arise prior to the completion of the project, the fixed-price contract method is applied.

The results obtained by Group companies from services rendered to joint ventures are recognised in their individual accounts on a percentage-of-completion basis. This is the policy applied to administration contracts and the results are eliminated, when appropriate, through reclassifications during consolidation.

All balances and transactions relating to branches in which the Company has an interest are recorded in the Company's financial statements.

—Real estate

The results of each real estate development project are recognised when the building is handed over. Direct costs, accrued interest on non-group financing and the corresponding portion of indirect costs for the execution period are capitalised in "Inventories" until the results are recognised.

—Other activities

Results are accounted for on an accruals basis.

p) Classification of receivables and payables

Receivables and payables are classified based on their due dates. Amounts falling due in less than twelve months are treated as short-term items and those due after more than twelve months are treated as long-term items.

TÉCNICAS REUNIDAS GROUP
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AS AT 31 DECEMBER 2004 AND 2003 (continued)

8. ACCOUNTING POLICIES (continued)

q) Severance payments:

Severance indemnities which can be reasonably quantified are expensed in the year in which the related decision is taken.

9. INTANGIBLE FIXED ASSETS (B.II)

9.1 Movements during the years 2004 and 2003 under this heading are set out below:

2004					
<u>Item</u>	<u>Opening balance</u>	<u>Included in consolidation</u>	<u>Increases</u>	<u>Decreases</u>	<u>Closing balance</u>
			Thousand euros		
Research and development expenses	11,068	—	853	—	11,921
Concessions, patents, licenses, brands and similar items	213	—	33	—	246
Goodwill	1,481	—	—	—	1,481
Software	4,463	—	1,470	—	5,933
Assets being acquired under finance leases	135	—	67	—	202
	<u>17,360</u>	<u>—</u>	<u>2,423</u>	<u>—</u>	<u>19,783</u>
Accumulated amortisation and provisions	<u>(11,840)</u>				<u>(13,532)</u>
	<u>5,520</u>				<u>6,251</u>
2003					
<u>Item</u>	<u>Opening balance</u>	<u>Included in consolidation</u>	<u>Increases</u>	<u>Decreases</u>	<u>Closing balance</u>
			Thousand euros		
Research and development expenses	10,182	—	886	—	11,068
Concessions, patents, licenses, brands and similar items	125	—	88	—	213
Goodwill	1,481	—	—	—	1,481
Software	4,317	—	243	(97)	4,463
Finance leases	104	—	74	(43)	135
	<u>16,209</u>	<u>—</u>	<u>1,291</u>	<u>(140)</u>	<u>17,360</u>
Accumulated depreciation and other provisions . .	<u>(10,698)</u>				<u>(11,840)</u>
	<u>5,511</u>				<u>5,520</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

9. INTANGIBLE FIXED ASSETS (B.II) (continued)

9.2 Movements in accumulated amortisation and provisions for intangible fixed assets, for the years 2004 and 2003, are set out below:

2004					
<u>Item</u>	<u>Opening balance</u>	<u>Included in consolidation</u>	<u>Increases</u>	<u>Decreases</u>	<u>Closing balance</u>
	Thousand euros				
Research and development expenses	8,808	—	1,248	—	10,056
Goodwill	1,070	—	34	—	1,104
Software	1,938	—	384	—	2,322
Assets being acquired under finance leases	24	—	26	—	50
Provision	—	—	—	—	—
	<u>11,840</u>	<u>—</u>	<u>1,692</u>	<u>—</u>	<u>13,532</u>
2003					
<u>Item</u>	<u>Opening balance</u>	<u>Included in consolidation</u>	<u>Increases</u>	<u>Decreases</u>	<u>Closing balance</u>
	Thousand euros				
Research and development expenses	8,001	—	807	—	8,808
Goodwill	1,036	—	34	—	1,070
Software	1,648	—	291	(1)	1,938
Finance leases	13	—	11	—	24
Provision	—	—	—	—	—
	<u>10,698</u>	<u>—</u>	<u>1,143</u>	<u>(1)</u>	<u>11,840</u>

9.3 At 31 December 2004 fully-amortised intangible fixed assets total K€ 8,189. At 31 December 2003 it amounted to K€ 3,955.

10. TANGIBLE FIXED ASSETS (B.III)

10.1 Movements during the years 2004 and 2003 in this heading are as follows:

2004					
<u>Item</u>	<u>Opening balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Closing balance</u>
	Thousand euros				
Land and buildings	1,137	113	(259)	—	991
Plant and machinery	4,910	303	—	—	5,213
Other fixed assets	15,342	2,144	(164)	—	17,322
	<u>21,389</u>	<u>2,560</u>	<u>(423)</u>	<u>—</u>	<u>23,526</u>
Accumulated depreciation and provisions	<u>(12,869)</u>				<u>(13,917)</u>
	<u>8,520</u>				<u>9,609</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

10. TANGIBLE FIXED ASSETS (B.III) (continued)

2003					
<u>Item</u>	<u>Opening balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Closing balance</u>
	Thousand euros				
Land and buildings	6,474	169	(5,679)	173	1,137
Plant and machinery	4,745	302	(137)	—	4,910
Other fixed assets	13,626	2,136	(435)	15	15,342
	<u>24,845</u>	<u>2,607</u>	<u>(6,251)</u>	<u>188</u>	<u>21,389</u>
Accumulated depreciation and other provisions	(13,465)				(12,869)
	<u>11,380</u>				<u>8,520</u>

10.2 Movements in “Provisions and depreciation”, for the years 2004 and 2003, are as follows:

2004					
<u>Item</u>	<u>Opening balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Closing balance</u>
	Thousand euros				
Land and buildings	435	13	(61)	—	387
Plant and machinery	2,721	335	—	—	3,056
Other fixed assets	9,713	954	(83)	(110)	10,474
Provisions	—	—	—	—	—
	<u>12,869</u>	<u>1,302</u>	<u>(144)</u>	<u>(110)</u>	<u>13,917</u>

2003					
<u>Item</u>	<u>Opening balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Closing balance</u>
	Thousand euros				
Land and buildings	2,232	126	(1,923)	—	435
Plant and machinery	2,401	319	—	1	2,721
Other fixed assets	8,832	1,036	(158)	3	9,713
Provisions	—	—	—	—	—
	<u>13,465</u>	<u>1,481</u>	<u>(2,081)</u>	<u>4</u>	<u>12,869</u>

10.3 As part of its real estate activities, the Group has concluded lease agreements with third parties, by virtue of which during the term of the agreements the Group has ceded the use of offices, commercial premises and garages located at PºCastellana 60 and Hermanos Gárate. The gross value of these assets at 31 December 2003 amounted to K€ 5,665 and the leases generated income totalling K€ 903 during the year, in addition to the K€ 126 obtained from the lease of offices located at c/Magallanes 3 to Empresarios Agrupados AIE and used to carry out the activities of the Energy Division and K€ 4 for the rental of parking spaces located at c/Téllez. These amounts total K€ 1,033 and are recorded in heading B.1 under Revenues in the consolidated profit and loss account.

TÉCNICAS REUNIDAS GROUP
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10. TANGIBLE FIXED ASSETS (B.III) (continued)

In December 2003 the building located at Paseo de La Castellana 60 and owned by the group was sold. This property had a net book value of K€ 3,573 and the sale gave rise to a capital gain of K€ 16,445.

10.4 It is Group policy to obtain all insurance policies deemed necessary to cover tangible fixed assets against all potential risks.

10.5 At 31 December 2004 fully depreciated tangible fixed assets total K€ 7,580. At 31 December 2003, it amounted to K€4,214.

11. FINANCIAL INVESTMENTS (B.IV)

11.1 Movements in Financial investments in 2004 and 2003 are as follows:

2004

<u>Item</u>	<u>Opening balance</u>	<u>Included in consolidation</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Closing balance</u>
Thousand euros						
Equity-consolidated shareholdings	5,086	4,815	166	(56)	—	10,011
Long-term securities portfolio	340	—	69	(40)	—	369
Other loans	1,369	—	39	(153)	—	1,255
Provisions	(53)	—	—	(2)	—	(55)
	<u>6,742</u>	<u>4,815</u>	<u>274</u>	<u>(251)</u>	<u>—</u>	<u>11,580</u>

2003

<u>Item</u>	<u>Opening balance</u>	<u>Included in consolidation</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Closing balance</u>
Thousand euros						
Shareholdings consolidated using equity method	4,990	—	96	—	—	5,086
Long-term securities portfolio	242	—	103	(5)	—	340
Other loans	3,465	—	—	(2,096)	—	1,369
Provisions	(35)	—	—	(18)	—	(53)
	<u>8,662</u>	<u>—</u>	<u>199</u>	<u>(2,119)</u>	<u>—</u>	<u>6,742</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11. FINANCIAL INVESTMENTS (B.IV) (continued)

11.2 Set out below is an analysis of equity-consolidated shareholdings by company:

2004					
<u>Company</u>	<u>Opening balance</u>	<u>Increases/ decreases</u>	<u>Shareholding</u>		<u>Closing balance</u>
			<u>Loss</u>	<u>Profit</u>	
Thousand euros					
Empresarios Agrupados, A.I.E.	307	—	—	—	307
Empresarios Agrupados Internacional, S.A.	1,280	—	—	131	1,411
Explotaciones Varias, S.A.	3,187	—	(56)	—	3,131
Ibérica del Espacio, S.A.	312	—	—	35	347
Productora de Diesel, S.A.	—	4,789	—	—	4,789
Green Fuel Corporación, S.A.	—	26	—	—	26
	<u>5,086</u>	<u>4,815</u>	<u>(56)</u>	<u>166</u>	<u>10,011</u>
2003					
<u>Company</u>	<u>Opening balance</u>	<u>Increases/ Decreases</u>	<u>Shareholding</u>		<u>Closing balance</u>
			<u>Loss</u>	<u>Profit</u>	
Thousand euros					
Empresarios Agrupados, A.I.E.	307	—	—	—	307
Empresarios Agrupados Internacional, S.A.	1,135	—	—	145	1,280
Explotaciones Varias, S.A.	3,250	—	(63)	—	3,187
Ibérica del Espacio, S.A.	298	—	—	14	312
	<u>4,990</u>	<u>—</u>	<u>(63)</u>	<u>159</u>	<u>5,086</u>

11.3 Set out below is an analysis of the item “Long-term securities portfolio” showing movements as at 31 December 2004 and 31 December 2003:

2004						
<u>Item</u>	<u>Opening balance</u>	<u>Included in consolidation</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Closing balance</u>
Thousand euros						
Shareholdings in non-Group companies .	340	—	69	(40)	—	369
	<u>340</u>	<u>—</u>	<u>69</u>	<u>(40)</u>	<u>—</u>	<u>369</u>
2003						
<u>Item</u>	<u>Opening balance</u>	<u>Included in consolidation</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Closing balance</u>
Thousand euros						
Shareholdings in non-group companies . .	237	—	103	—	—	340
Shareholdings in group companies	5	—	—	(5)	—	—
	<u>242</u>	<u>—</u>	<u>103</u>	<u>(5)</u>	<u>—</u>	<u>340</u>

TÉCNICAS REUNIDAS GROUP
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11. FINANCIAL INVESTMENTS (B.IV) (continued)

11.4 Set out below is an analysis of Other loans for the year 2004 and 2003:

<u>2004</u>	<u>Thousand euros</u>
Loans to employees	355
Deposits and guarantees	900
	<u>1,255</u>
 <u>2003</u>	 <u>Thousand euros</u>
Loans to employees	418
Deposits and guarantees	951
	<u>1,369</u>

Loans to employees fall due in a maximum of 36 months.

Deposits and guarantees relate mainly to the lease of the Parent company's headquarters.

11.5 The provision breaks down as follows:

<u>2004</u>	<u>Opening balance</u>	<u>Included in consolidation</u>	<u>Increases</u>	<u>Decreases</u>	<u>Closing balance</u>
<u>Company</u>					
	<u>Thousand euros</u>				
Fondo Capital Riesgo	18	—	2	—	20
Puntos Suspensivos, S. A.	30	—	—	—	30
Comercial Técnicas Reunidas, S.L.	3	—	—	—	3
Other	<u>2</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>
	<u>53</u>	<u>—</u>	<u>2</u>	<u>—</u>	<u>55</u>
 <u>2003</u>					
<u>Company</u>	<u>Opening balance</u>	<u>Included in consolidation</u>	<u>Increases</u>	<u>Decreases</u>	<u>Closing balance</u>
	<u>Thousand euros</u>				
Fondo Capital Riesgo	—	—	18	—	18
Puntos Suspensivos, S. A.	30	—	—	—	30
Comercial Técnicas Reunidas, S.L.	3	—	—	—	3
Other	<u>2</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>
	<u>35</u>	<u>—</u>	<u>18</u>	<u>—</u>	<u>53</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12. GOODWILL ON CONSOLIDATION

12.1 Goodwill is analysed below as at 31 December 2004 and at 31 December 2003:

<u>2004</u>	<u>Gross</u>	<u>Amortisation</u>	<u>Net</u>
	Thousand euros		
Grupo Layar, S.A.	2,729	(1,760)	969
Initec Plantas Industriales, S.A.	28	(13)	15
Initec Infraestructuras, S.A.	28	(13)	15
	<u>2,785</u>	<u>(1,786)</u>	<u>999</u>
 <u>2003</u>	 <u>Gross</u>	 <u>Amortisation</u>	 <u>Net</u>
	Thousand euros		
Grupo Layar, S.A.	2,729	(1,487)	1,242
Initec, S.A.	56	(20)	36
	<u>2,785</u>	<u>(1,507)</u>	<u>1,278</u>

12.2 Goodwill on consolidation totalling K€ 2,729 gross and K€ 999 net relates to the positive difference on first consolidation of the companies Layar, S.A. and Layar Castilla, S.A., except for a capital gain of K€ 1,925 attributable to property used for agricultural purposes and as a game preserve, owned by the equity-consolidated company Explotaciones Varias, S.A.

The amounts relating to Initec Plantas Industriales, S.A. and Initec Infraestructuras, S.A. represent the difference between each company's acquisition cost and net worth.

12.3 Goodwill is amortised on a straight-line basis over the period during which it contributes to the generation of income, subject to a maximum of 20 years. The goodwill amortisation charge for the year totalled K€ 279.

13. INVENTORIES (E.II)

13.1 This heading is analysed below as at 31 December 2004 and 2003:

<u>Item</u>	<u>2004</u>	<u>2003</u>
	Thousand euros	
Cost of bids presented	5,945	2,621
Engineering projects in progress	5,892	7,180
Raw materials and consumables	71	71
Real estate development	—	2
Provisions	<u>(1,032)</u>	<u>(1,032)</u>
	<u>10,876</u>	<u>8,842</u>

13.2 As is described in Note 8.i, the heading "Engineering projects in progress" records the capitalisation of costs incurred for fixed price engineering projects until the moment they are completed, at which point this heading is adjusted against "Prepayments received from

TÉCNICAS REUNIDAS GROUP
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13. INVENTORIES (E.II) (continued)

customers” (the account recording financing received from customers, as indicated in Note 21) and any profit and loss is recognised. Prepayments received for projects included in the balance of this account total K€ 1,539 as at 31 December 2004.

- 13.3 In accordance with Group policy, these bid presentation costs (K€ 5,945) are capitalised until the customer’s decision is known. If the customer awards the project, they are amortised over the term of the project. If the project is not awarded, these costs are amortised in full at the time this circumstance is known.

14. TRADE DEBTORS FOR SALES AND SERVICES AND OTHER DEBTORS (E.III.1 and E.III.3)

- 14.1 A breakdown of the caption “trade debtors for sale and services” as at 31 December 2004 and 2003 is set out below:

2004

<u>Item</u>	<u>Amount</u> <u>Thousand</u> <u>euros</u>
Trade debtors in euros	52,846
Trade debtors denominated in foreign currency	42,645
Completed work pending certification	212,381
Trade bills receivable	795
Doubtful debtors	3,692
	<u>312,359</u>

2003

<u>Item</u>	<u>Amount</u> <u>Thousand</u> <u>euros</u>
Trade debtors in euros	104,104
Trade debtors denominated in foreign currency	44,061
Completed work pending certification	88,285
Trade bills receivable	376
Doubtful debts	3,235
	<u>240,061</u>

In 2004 K€ 212,381 relates to the apportionment of income from projects (in euros and in foreign currency) under the percentage-of-completion method and mainly resulting from the technical estimates of contractual completion, as indicated in Note 8.o.

TÉCNICAS REUNIDAS GROUP
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14. TRADE DEBTORS FOR SALES AND SERVICES AND OTHER DEBTORS (E.III.1 and E.III.3) (continued)

Set out below is the balance in “Trade debtors denominated in foreign currency”, relating to invoices pending collection, to which the relevant year-end or hedged interest rate has been applied for the year 2004 and 2003:

<u>2004</u>	<u>Equivalent value in K€</u>
US dollars	42,645
	<u>42,645</u>
 <u>2003</u>	 <u>Equivalent value in K€</u>
US dollars	43,078
	<u>43,078</u>

14.2 The balance in “Doubtful debtors” is fully covered by a provision recorded under the balance sheet heading E.III.4 “Provisions”, based on estimated collections.

14.3 A breakdown of movements in the provision during the year 2004 and 2003 is as follows:

<u>2004</u>	<u>Amount Thousand euros</u>
Opening balance	3,095
Appropriations for the year	147
Reversals	(3)
Applications	(3)
Transfers	786
	<u>4,022</u>
 <u>2003</u>	 <u>Amount Thousand euros</u>
Opening balance	4,023
Charge for the year	—
Reversals	(352)
Applications	(576)
	<u>3,095</u>

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14. TRADE DEBTORS FOR SALES AND SERVICES AND OTHER DEBTORS (E.III.1 and E.III.3) (continued)

13.4 A breakdown of “Other debtors” as at December 31, 2004 and 2003 is as follows:

2004

<u>Item</u>	<u>Amount</u> <u>Thousand</u> <u>euros</u>
Trade debtors, multi-group companies	14,928
Taxes refundable	11,480
Other debtors	3,438
Interim corporate income tax paid	6,310
Tax credit for tax-loss carry-forwards	6,206
	<u>42,362</u>

2003

<u>Item</u>	<u>Amount</u> <u>Thousand</u> <u>euros</u>
Trade debtors, Multi-Group companies	25,691
Taxes refundable	11,286
Other debtors	2,541
Corporate income tax paid on account	1,939
Tax credit for tax-loss carry-forwards	5,877
	<u>47,334</u>

The item “Trade debtors, multi-group companies” includes the amount of K€ 18,144 (K€ 15,922 in 2003) relating to balances with joint ventures that have not been eliminated during consolidation since it consists of the part receivable from other JV members.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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15. COMPANIES CONSOLIDATED USING EQUITY METHOD (E.III.2 and G.III)

A breakdown of balances with equity-consolidated companies as at December 31, 2004 and 2003 is set out below:

2004

<u>Company</u>	<u>Amounts</u>	
	<u>Debtors</u>	<u>Creditors</u>
	<u>Thousand euros</u>	
Ibérica del Espacio	34	—
Empresarios Agrupados, A.I.E.	1,525	1,473
Empresarios Agr.Internacional, S.A.	1,655	—
Green Fuel Corporación, S.A.	2	—
	<u>3,216</u>	<u>1,473</u>

2003

<u>Company</u>	<u>Amounts</u>	
	<u>Debtors</u>	<u>Creditors</u>
	<u>Thousand euros</u>	
Ibérica del Espacio	69	—
Empresarios Agrupados, A.I.E.	588	721
Empresarios Agr.Internacional, S.A.	1,082	—
	<u>1,739</u>	<u>721</u>

16. SHORT-TERM SECURITIES PORTFOLIO AND OTHER LOANS (E.IV.1 AND E.IV.2)

16.1. As at 31 December 2004 and 2003 this heading breaks down as follows:

2004

<u>Item</u>	<u>Amount</u>	<u>Provision</u>	<u>Net</u>
	<u>Thousand euros</u>		
Short-term fixed-income investments	21,741	—	21,741
Short-term equity investments	78,072	(1,562)	76,510
Short-term fixed-income investments by JV	12,355	—	12,355
	<u>112,168</u>	<u>(1,562)</u>	<u>110,606</u>

2003

<u>Item</u>	<u>Amount</u>	<u>Provision</u>	<u>Net</u>
	<u>Thousand euros</u>		
Short-term fixed income investments	55,065	—	55,065
Short term variable income investments	94,430	(2,404)	92,026
Short-term fixed income investments made by JV	25,312	—	25,312
	<u>174,807</u>	<u>(2,404)</u>	<u>172,403</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

16. SHORT-TERM SECURITIES PORTFOLIO AND OTHER LOANS (E.IV.1 AND E.IV.2) (continued)

16.2. A breakdown of the balance in “Short-term equity investments” as at 31 December 2004 and 2003, basically comprising listed securities, is as follows:

2004

<u>Item</u>	<u>Amount</u> <u>Thousand</u> <u>euros</u>
Mutual funds (FIM)	18,228
Banks, equities	57,225
Communications and Technology	663
Industry	1,035
Others, foreign portfolio	921
	<u>78,072</u>

2003

<u>Item</u>	<u>Amount</u> <u>Thousand</u> <u>euros</u>
FIM investment funds	13,781
Banks, equities	74,777
Communications and Technology	671
Electricity utilities	238
Industry	925
Others, Domestic	900
Others, Foreign	3,138
	<u>94,430</u>

The item “Banks, equities” includes K€ 34,712 relating to the investments made by the Group in 2002 and 2003, consisting of the purchase of shares in Pegasides SIMCAV, S.A.

As at 31 December 2004, all necessary provisions have been recorded to write-down any excess value recorded with respect to their listed prices. According to year-end listed prices, the portfolio showed unrecorded latent capital gains totalling K€ 31. For the year 2003 the latent capital gains amounted for K€ 220.

TÉCNICAS REUNIDAS GROUP
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16. SHORT-TERM SECURITIES PORTFOLIO AND OTHER LOANS (E.IV.1 AND E.IV.2) (continued)

16.3 At 31 December 2004 and 2003, the item “Other loans” breaks down as follows:

2004

<u>Item</u>	<u>Amount</u> <u>Thousand</u> <u>euros</u>
Loans to associated companies	36
Time deposits, short-term	10,220
Short-term guarantee deposits	381
Short-term deposits	62
	<u>10,699</u>

2003

<u>Item</u>	<u>Amount</u> <u>Thousand</u> <u>euros</u>
Loans to associated companies	332
Time deposits, short-term	8,709
Short term loans	296
Short-term guarantee deposits	215
Short-term deposits	62
	<u>9,614</u>

TÉCNICAS REUNIDAS GROUP
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AS AT 31 DECEMBER 2004 AND 2003 (continued)

17. CAPITAL AND RESERVES (A)

17.1 Movements during the year 2004 and 2003 in the capital and reserve accounts are as follows:

2004						
Item	Opening balance	Distributed profits	Profit/(loss) for year	Dividends paid	Intra-group dividends and other	Closing balance
	Thousand euros					
Share capital	5,687	—	—	—	(97)	5,590
Share premium	8,691	—	—	—	—	8,691
Parent Company reserves						
Distributable	57,752	2,438	—	—	(417)	59,773
Non-distributable	1,260	—	—	—	(123)	1,137
Reserves in companies consolidated using full or proportional method(*)	29,869	6,703	—	—	83	36,655
Reserves in equity-consolidated companies	1,076	444	—	—	347	1,867
Currency translation differences	23	—	—	—	(896)	(873)
Consolidated profit and loss	36,534	(36,534)	30,223	—	—	30,223
Profit/(loss) attributable to minority interests	(131)	131	(150)	—	—	(150)
Interim dividend paid in 2003	(19,618)	19,618	—	—	—	—
	<u>121,143</u>	<u>(7,200)</u>	<u>30,073</u>	<u>—</u>	<u>(1,103)</u>	<u>142,913</u>

(*) At 31 December 2003, these reserves included K€ 123 in the “Reserve for own shares held”. This reserve was reversed in 2004 as a result of the purchase and redemption of those shares by Técnicas Reunidas, S.A..

2003						
Item	Opening balance	Distributed profits	Profit/(loss) for year	Dividends paid	Intra-group dividends and others	Closing balance
	Thousand euros					
Share capital	5,687	—	—	—	—	5,687
Share premium	8,691	—	—	—	—	8,691
Parent company reserves						
Available for distribution	58,050	(298)	—	—	—	57,752
Not available for distribution	1,260	—	—	—	—	1,260
Reserves in companies consolidated using the full or proportional method(*)	20,278	9,591	—	—	—	29,869
Reserves in companies consolidated using the equity method	1,037	39	—	—	—	1,076
Differences on exchange	23	—	—	—	—	23
Consolidated profit and loss account . .	31,111	(31,111)	36,534	—	—	36,534
Profit/(loss) attributable to minority shareholders	(82)	82	(131)	—	—	(131)
Interim dividend in 2003	—	—	—	(19,618)	—	(19,618)
Interim dividend in 2002	(14,281)	14,281	—	—	—	—
	<u>111,774</u>	<u>(7,416)</u>	<u>36,403</u>	<u>(19,618)</u>	<u>—</u>	<u>121,143</u>

TÉCNICAS REUNIDAS GROUP
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17. CAPITAL AND RESERVES (A) (continued)

17.2 Set out below is a breakdown of the item “Reserves in companies consolidated using full or proportional method” for the year 2004 and 2003:

2004					
Company	Opening balance	Profit/(loss) 2003	Payment of dividends	Consolid. adjustm.	Closing balance
			Thousand euros		
Técnicas Reunidas Internacional, S.A.	102	82	—	—	184
Termotécnica, S.A.	717	42	—	—	759
Proyectos Internacionales, S.A.	408	(47)	—	—	361
Técnicas Reunidas Ecología, S.A.	53	303	—	—	356
Técnicas Reunidas Metalúrgica, S.A.	121	2	—	—	123
Técnicas Reunidas Trade Panamá, S.A.	(46)	—	—	72	26
Técnicas Siderúrgicas, S.A.	74	9	—	—	83
T,R, Construcción y Montaje, S.A.	1,538	(11)	—	—	1,527
Española de Investigación y Desarrollo, S.A.	552	(562)	—	391	381
Grupo Layar	1,250	(127)	(227)	468	1,364
Heymo Ingeniería, S.A.	1,068	276	(156)	18	1,206
Grupo Initec, S.A.(*)	23,143	5,163	—	(74)	28,232
KJT Engenharia	699	1,059	—	—	1,758
DPM Company	109	68	—	(88)	89
DLC	45	498	—	(191)	352
Initec Chile, S.A, ...	—	—	—	(223)	(223)
Técnicas Reunidas Gulf L.T.D.	—	—	—	41	41
ReciclAguilar	36	—	—	—	36
	<u>29,869</u>	<u>6,755</u>	<u>(383)</u>	<u>414</u>	<u>36,655</u>

Company	Opening balance	2002 results	Distribution of dividends	Transfers	Adjustments	Closing balance
			Thousand euros			
Técnicas Reunidas Internacional, S.A.	137	466	—	—	(501)	102
Termotécnica, S.A.	757	(40)	—	—	—	717
Proyectos Internacionales, S.A.	1 617	(82)	—	—	(1,127)	408
Técnicas Reunidas Ecología, S.A.	730	172	—	—	(849)	53
Técnicas Reunidas Metalúrgica, S.A.	129	(8)	—	—	—	121
Técnicas Reunidas Trade Panamá, S.A.	46	—	—	—	(92)	(46)
Técnicas Siderúrgicas, S.A.	82	(8)	—	—	—	74
T,R, Construcción y Montaje, S.A.	490	(65)	—	—	1,113	1,538
Española de Investigación y Desarrollo, S.A. . .	1,184	(755)	—	—	123	552
Layar group	1,284	548	—	1,460	(2,042)	1,250
Heymo Ingeniería, S.A.	949	602	(122)	—	(361)	1,068
Initec	12,873	10,676	—	—	(406)	23,143
KJT Engenharia	—	2,088	—	—	(1,389)	699
DPM Company	—	153	—	—	(44)	109
DLC	—	221	—	—	(176)	45
ReciclAguilar	—	—	—	—	36	36
	<u>20,278</u>	<u>13,968</u>	<u>(122)</u>	<u>1,460</u>	<u>(5,715)</u>	<u>29,869</u>

(*) As at 31 December 2004, the Initec Group is formed by Initec Plantas Industriales, S.A. and Initec Infraestructura, S.A..

TÉCNICAS REUNIDAS GROUP
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17. CAPITAL AND RESERVES (A) (continued)

17.3 The item “Reserves in equity-consolidated companies” is analysed, for the year 2004 and 2003, below:

<u>2004</u>	<u>Opening balance</u>	<u>Profit/(loss) adjusted 2003</u>	<u>Other</u>	<u>Amount</u>
		Thousand euros		
Company				
Empresarios Agrupados, A.I.E.	117	—	—	117
Empresarios Agrupados Internacional, S.A.	794	130	(4)	920
Productora de Diesel, S.A.	—	—	612	612
Green Fuel Corporación, S.A.	—	39	—	39
Ibérica del Espacio, S.A.	165	14	—	179
	<u>1,076</u>	<u>183</u>	<u>608</u>	<u>1,867</u>
<u>2003</u>	<u>Opening balance</u>	<u>Adjusted profit/(loss) for 2002</u>	<u>Other</u>	<u>Amount</u>
		Thousand euros		
Company				
Empresarios Agrupados, A.I.E.	117	—	—	117
Empresarios Agrupados Internacional, S. A.	697	101	(4)	794
Ibérica del Espacio, S.A.	223	(58)	—	165
	<u>1,037</u>	<u>43</u>	<u>(4)</u>	<u>1,076</u>

17.4 On 11 December 2003, the following resolutions were proposed to a General Shareholders’ Meeting:

1. The purchase and redemption of own shares held by Española de Investigación y Desarrollo S.A. (ESPINDESA), a wholly-owned subsidiary of Técnicas Reunidas S.A. The share capital reduction totalled K€ 88, voluntary reserves were reduced by K€ 426 and K€ 514 was paid to purchase these shares. The purchase price was €35 per share and 1.552% of Técnicas Reunidas S.A.’s capital held by ESPINDESA was immediately redeemed, consisting of 14,682 shares numbered sequentially from 897,319 through 912,000.
2. Share capital reduction due to the decrease in the par value of the shares. The reduction totalled K€ 9 and voluntary reserves were increased in the same amount. The reduction was carried out by decreasing the par value of the shares by €0.010121 per share.

The above-mentioned operations were entered in the Mercantile Register in 2004 and therefore affect these financial statements.

TÉCNICAS REUNIDAS GROUP
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17. CAPITAL AND RESERVES (A) (continued)

As a result of the above resolutions, Article 5 of the Parent Company's Articles of Association was amended as follows: "Share capital stands at €5,589,600, represented by 931,600 fully-paid, registered shares with a par value of €6 each, numbered sequentially from 1 through 931,600".

The share capital of Técnicas Reunidas, S.A. is therefore represented by 931,600 fully-paid registered shares with a par value of €6 each, distributed as follows:

Shareholder	Amount euros	Percentage interest
Banco Santander Central Hispano, S.A.	2,125,212	38.02%
Banco Industrial de Bilbao, S.A.	744,624	13.32%
Bilbao Vizcaya Holding, S.A.	674,604	12.06%
Araobra, S.L.	1,069,122	19.13%
Araltec, S.L.	577,638	10.33%
Lladó family	398,400	7.14%
TOTAL	5,589,600	100.00%

There are no restrictions on the transfer of shares.

17.5 On 11 December 2003 a proposal was put forth to shareholders holding a General Meeting calling for the following resolutions:

- a. The purchase and write-down of own shares owned by Española de Investigación y Desarrollo S.A. (ESPINDESA), a wholly owned subsidiary of Técnicas Reunidas S.A. The share capital reduction shall total €88,092, and voluntary reserves shall be reduced by €425,778 and €513,870 will be paid out to purchase these shares. The purchase price is €35 per share and 1.552% of the share capital of Técnicas Reunidas S.A. that pertained ESPINDESA will be immediately written-off. This amount consists of 14,682 shares numbered sequentially from 897,319 through 912,000.
- b. Share capital reduction due to the decrease in the par value of the shares. The reduction shall total €9,577.36 Euros, and voluntary reserves will be increased by the same amount. This reduction will be carried out by reducing the par value of shares by €0.010121 per share.

These operations will be carried out within three months after the resolution is adopted and at 31 December 2003 they had not yet been executed so therefore these changes have no effect on these financial statements.

As a result of the above resolutions, Article 5 of the Articles of Association shall be modified to read: "Share capital is established at €5,589,600, represented by 931,600 fully paid, registered shares with a par value of € 6 each, numbered sequentially from 1 through 897,318 and from 912,001 through 946,282".

17.6 The legal reserve, for which full allocation has been made, is not available for distribution to shareholders and may only used to offset losses in the event that no other reserves are available. In certain circumstances the legal reserve may be used to increase share capital.

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

17. CAPITAL AND RESERVES (A) (continued)

17.7 The proposal the Parent Company's Board of Directors will present to its Annual General Meeting with respect to the distribution of results is as follows:

<u>Available for distribution</u>	<u>Thousand euros</u>
Profit for the year	20,111
Total available for distribution = Total distributions	<u>20,111</u>

<u>Distributed to</u>	<u>Thousand euros</u>
Voluntary reserves	—
Retained earnings	7,311
Dividends	12,800
Total available for distribution = Total distributions	<u>20,111</u>

18. MINORITY INTERESTS (B)

Movements in this account during the year 2004 and 2003 are as follows:

<u>2004</u>	<u>Opening balance</u>	<u>Increases</u>	<u>Other</u>	<u>Closing balance</u>
		<u>Thousand euros</u>		
Eurocontrol, S.A.	932	161	(23)	1,070
Termotécnica, S.A.	1	—	—	1
Reciclaguilar, S.A.	12	(7)	—	5
Técnicas Reunidas Gulf, S.A.	0	(4)	63	59
	<u>945</u>	<u>150</u>	<u>40</u>	<u>1,135</u>
<u>2003</u>	<u>Opening balance</u>	<u>Increases</u>	<u>Other</u>	<u>Closing balance</u>
		<u>Thousand euros</u>		
Eurocontrol	819	132	(19)	932
Reciclaguilar, S.A.	—	—	12	12
Termotécnica, S.A.	1	—	—	1
	<u>820</u>	<u>132</u>	<u>(7)</u>	<u>945</u>

TÉCNICAS REUNIDAS GROUP
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19. DEFERRED INCOME (D)

Grants obtained are analysed below at 31 December 2004 and 2003 are as follows:

<u>2004</u>	<u>Opening balance</u>	<u>Transferred to other companies</u>	<u>Released to income for the year</u>	<u>Closing balance</u>
	Thousand euros			
Organisation				
Trawman Network CEE	6	—	—	6
Cleahlead G. CEE	595	(9)	121	483
Proy. Pickling Bath Recovery	89	—	89	—
Extend. nanofilters CEE	39	—	18	21
Nitrous oxide monolithic catalyst project	62	—	—	62
Project for recycling plant, batteries and fluorescent tubes . . .	3,100	—	—	3,100
	<u>3,891</u>	<u>(9)</u>	<u>228</u>	<u>3,672</u>
<u>2003</u>	<u>Opening balance</u>	<u>Received during the year</u>	<u>Taken to profit and loss for the year</u>	<u>Closing balance</u>
	Thousand euros			
Organisation				
Trawman Network CEE	6	—	—	6
Cleahlead G. CEE	396	199	—	595
Proy. Pickling Bath Recovery	177	—	(88)	89
Extend. nanofilters CEE	57	—	(18)	39
Mejora Zincex Modific. 5895	13	—	(13)	—
Proyecto Catalizador monolítico óxido nítrico	62	—	—	62
Proyecto planta Rec. Pilas y Tubos Fl.	—	3,100	—	3,100
	<u>711</u>	<u>3,299</u>	<u>(119)</u>	<u>3,891</u>

The Group companies comply with all the conditions imposed on obtaining the above-mentioned grants.

20. PROVISIONS (E and G.VI)

20.1 As at 31 December 2004 and 2003 this heading breaks down as follows:

<u>2004</u>	<u>Amount</u>
	Thousand euros
Item	
Provision for liabilities and charges (long-term)	51,763
Trade provisions (short-term)	8,595
	<u>60,358</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

20. PROVISIONS (E and G.VI) (continued)

<u>2003</u>	<u>Amount</u> Thousand euros
Item	
Provision for liabilities and charges	23,078
Trade provisions	38,404
	<u>61,482</u>
Long-term	57,569
Short-term	3,913

20.2 Provisions for liabilities and charges

Set out below is an analysis of Provisions for liabilities and charges showing movements during the year 2004 and 2003:

<u>2004</u>	<u>Liabilities and charges</u> Thousand euros
Item	
Opening balance	57,569
Appropriations for the year	31,661
Reversals	(32,065)
Applications	(230)
Transfers	(5,172)
	<u>51,763</u>

<u>2003</u>	<u>Liabilities and charges</u> Euros
Item	
Opening balance	13,523
Charge for the year	—
Reversals	(2,731)
Applications	76
Transfers	12,210
	<u>23,078</u>

Appropriations for the year relate mainly to contingencies associated with the Group's engineering projects, including a provision for all estimated future losses on certain projects.

Reversals for the year relate mainly to provisions recorded by foreign JVs because the circumstances that gave rise to the provisions ceased to apply in 2004.

TÉCNICAS REUNIDAS GROUP
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20. PROVISIONS (E and G.VI) (continued)

20.3 Trade provisions

A breakdown of movements in this heading in 2004 and 2003 is set out below:

<u>2004</u>	<u>Amount</u> <u>Thousand euros</u>
Item	
Opening balance	3,913
Appropriations for the year	1,751
Transfers	5,172
Applications	<u>(2,241)</u>
	<u>8,595</u>
<u>2003</u>	<u>Liabilities and</u> <u>charges</u> <u>Euros</u>
Item	
Opening balance	35,407
Charge for the year	673
Reversals	(1,833)
Applications / Transfers	<u>4,157</u>
	<u>38,404</u>

Transfers during the year 2004 relate mainly to provisions made by the Group for potential, estimated exchange losses arising from projects.

20.4 Change in trade provisions

A breakdown of changes in trade provisions, for the years 2004 and 2003, described in point A.5 of the accompanying consolidated profit and loss account is as follows:

<u>2004</u>	<u>Amount</u> <u>Thousand euros</u>
Item	
Appropriations to provisions for liabilities and charges	31,661
Reversal of provisions for liabilities and charges	(32,065)
Appropriations to trade provisions	<u>1,751</u>
	<u>1,347</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20. PROVISIONS (E and G.VI) (continued)

2003

<u>Item</u>	<u>Amount</u> <u>Thousand</u> <u>euros</u>
Allocations made to trade provisions by:	
—Joint ventures	378
—Group companies	282
Transfer to provision for bad debts	76
Transfer to provision for inventories	1,032
Reversal of the provision for inventories	(67)
Reversal of trade provisions recorded by:	
—Joint ventures	(1,466)
—Group companies	(1,009)
Application of bad debt provision	—
Application of provision	—
	<u>(774)</u>

20.5 Estimated reversal of provisions

As indicated in Note 8.k), the Group has a policy of setting up general provisions by applying a prudent method based on probable risks and management's best estimates.

These provisions cover certain employee-related risks and guarantees, commitments and contingencies of any kind that could arise with respect to engineering projects.

Accordingly, the new estimates of provisions by the Group reflect the need to maintain this provision for the potential contingencies and risks described in Note 8.k).

The rate at which events covered by provisions for liabilities and charges and trade provisions will occur cannot be foreseen, as they are subject to execution schedules and circumstances that are outside the Group's control. In view of these limitations, the best estimates of the approximate

TÉCNICAS REUNIDAS GROUP
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20. PROVISIONS (E and G.VI) (continued)

occurrence date, if applicable, of the events and risks covered by the provisions and related to projects undertaken by the Group are as follows:

	<u>Thousand euros</u>
2005	24,466
Following years	<u>27,297</u>
	<u>51,763</u>
	<u>Thousand euros</u>
2004	6,418
After 2004	<u>55,064</u>
	<u>61,482</u>

21. CREDITORS FALLING DUE WITHIN ONE YEAR (G)

21.1 Bank loans and overdrafts (G.I)

The most significant item under this heading relates to two credit facilities granted by a Spanish bank that fall due within one year and bear interest at a market rate on balances drawn down. The following amounts have been drawn:

K€ 1,175 (maximum limit of K€ 15,000)

K€ 17,740 (maximum limit of K€ 19,100).

TÉCNICAS REUNIDAS GROUP
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21. CREDITORS FALLING DUE WITHIN ONE YEAR (G) (continued)

21.2 Trade Creditors (G.IV)

As at 31 December 2004 and 2003 this heading breaks down as follows:

<u>2004</u> <u>Item</u>	<u>Amount</u> <u>Thousand euros</u>
Advances received from customers:	
—In euros	50,852
—In foreign currency	20,457
Sub-total	71,309
Suppliers	188,522
Supplier invoices pending receipt	63,694
Supplier withholdings	1,526
Creditors for services received	760
	<u>325,811</u>
 <u>2003</u> <u>Item</u>	 <u>Amount</u> <u>Thousand euros</u>
Prepayments received from customers (In Euros)	116,756
Suppliers	136,807
Supplier invoices yet to be received	42,226
Supplier withholdings	4,779
Creditors for services received	1,379
	<u>301,947</u>

The account “Supplier invoices pending receipt” relates to technical completion estimates made in respect of third-party contracts, as indicated in Note 8.o).

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21. CREDITORS FALLING DUE WITHIN ONE YEAR (G) (continued)

21.3 Other creditors (G.V)

As at 31 December 2004 this heading breaks down as follows:

	<u>Amount</u> <u>Thousand</u> <u>euros</u>
Taxes payable	4,997
Social security contributions	2,002
Output VAT	62
Other amounts payable to public institutions	101
Dividend payable	188
Accrued wages and salaries	1,014
Other creditors	<u>75</u>
	<u>8,439</u>

22. TAX SITUATION

22.1 On 30 September 1993, the General Directorate for Taxation granted the Parent Company permission to file consolidated tax returns for 1993, 1994 and 1995. The tax group is formed by the following companies:

- Técnicas Reunidas, S.A.
- Técnicas Reunidas Internacional, S.A.
- Termotécnica, S.A.
- Proyectos Internacionales, S.A.
- Técnicas Reunidas Ecología, S.A.

Subsequently, in 1994, the following companies joined the tax group:

- Técnicas Siderúrgicas, S.A.
- Española de Investigación y Desarrollo, S.A.
- Técnicas Reunidas Proyectos Internacionales, S.A.

On 25 June 1996 the Group informed the Directorate General for Taxation that it wished to apply the consolidated tax system for the tax years 1996, 1997 and 1998, in accordance with the resolutions adopted.

On 16 July 1998 the Group reported to the Directorate General for Taxation that it wished to extent the consolidated tax system to cover the tax years 1999, 2000 and 2001.

In 1998 the tax group was joined by Técnicas Reunidas Metalúrgicas, S.A.

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

22. TAX SITUATION (continued)

In 1999 the following companies joined the tax group:

- Layar, S.A.
- Layar Castilla, S.A.
- Layar Real Reserva, S.A.

On 2 July 2001, the Directorate General for Taxation was notified that the Group wished to apply the consolidated tax regime in 2002, 2003 and 2004, in accordance with the resolutions adopted.

In 2003 Eurocontrol, S.A. joined the tax group and in 2004 the companies Initec Plantas Industriales, S.A. and Initec Infraestructuras, S.A. joined.

The regulations issued by the Spanish Institute of Accounting and Auditing (ICAC) have been applied to the calculation of corporate income tax.

22.2 The following tables show the reconciliation of book and reported profits for the year 2004 and 2003:

<u>2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Amount</u>
	<u>Thousand euros</u>		
Consolidated reported profit for the year			30,223
Consolidation adjustments			279
Aggregate reported profit			30,502
Corporate income tax			(4,626)
Permanent differences	19,502	(58,596)	(39,094)
Adjusted aggregate tax base			(13,218)
Timing differences arising in prior years	—	(226)	(226)
Timing differences arising during the year	12,716	—	12,716
Offset of tax-loss carryforwards	—	(795)	(795)
Tax base			(1,523)
Charges to profit and loss:			
Aggregate reported result adjusted to the nominal tax rate (35%)			(4,626)
Tax credits			—
Timing differences			—
Net—charged to profit and loss			(4,626)

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

22. TAX SITUATION (continued)

<u>2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Amount</u>
	Thousand euros		
Consolidated book profit for year			36,534
Consolidated adjustments			174
Results from companies consolidated using equity method			<u>(78)</u>
Aggregate book profit			36,630
Corporate income tax			107
Permanent differences	3,613	(26,920)	<u>(23,307)</u>
Reported adjusted aggregate profit			13,430
Timing differences arising in prior years	—	(999)	(999)
Timing differences arising during the year	5,291	(39)	5,252
Taxable income			<u>17,683</u>
Charges to profit and loss:			
Aggregate book result adjusted to the nominal tax rate (35%)			6,189
Deductions			(4,244)
Timing differences			<u>(1,838)</u>
Net—taken to profit and loss			<u>107</u>

22.3 The main permanent differences, for each year, are set out below:

<u>Increases</u>	<u>2004</u>	<u>2003</u>
	Thousand euros	Thousand euros
Provisions from abroad, Law 18/82	19,088	3,330
Non-deductible expenses	272	263
Other	<u>142</u>	<u>20</u>
	19,502	3,613
 <u>Decreases</u>	 <u>2004</u>	 <u>2003</u>
	Thousand euros	Thousand euros
Results from foreign JVs, Law 18/82	57,274	3,057
Results from foreign companies	807	21,132
Excess provisions for liabilities and charges	230	2,731
Other	<u>285</u>	<u>—</u>
	<u>58,596</u>	<u>26,920</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

22. TAX SITUATION (continued)

22.4 Deferred corporate income tax assets and liabilities from years prior to the entry into force of Law 19/89 (25 July) are not recorded on the accompanying balance sheet in accordance with the accounting policy described in Note 8.m). The related deferred tax asset totals K€ 3,338.

A breakdown (not recorded in the accounts) of these timing differences and movements during the year 2004 and 2003 in the respective tax bases is set out below:

2004	Opening balance	Reversed during the year	Closing balance
Deferred tax liability:			
Free depreciation, RDL 2/85	81	81	—
TOTAL	<u>81</u>	<u>81</u>	<u>—</u>
Deferred tax asset:			
Provisions for liabilities and charges	9,767	230	9,537
TOTAL	<u>9,767</u>	<u>230</u>	<u>9,537</u>
2003	Opening balance	Reversed during the year	Closing balance
		Thousand euros	
Deferred tax liability			
Unrestricted depreciation under RDL 2/85	3,475	(3,394)	81
	<u>3,475</u>	<u>(3,394)</u>	<u>81</u>
Deferred tax asset			
Provisions for liabilities and charges	12,497	(2,731)	9,766
	<u>12,497</u>	<u>(2,731)</u>	<u>9,766</u>

The differences between reported and taxable profits are included in corporate income tax returns for the relevant years by means of non-accounting adjustments.

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

22. TAX SITUATION (continued)

22.5 Reported accumulated corporate income tax assets and liabilities arising in years, prior to the entry into force of Law 19/89 (25 July), consist of the difference between the tax base (obtained in accordance with tax legislation in force in each year) and adjusted book profits (obtained in accordance with accounting principles generally accepted in Spain). This account is analysed below as at 31 December 2004 and 2003:

2004

<u>Deferred tax asset</u>	<u>Amount</u>
	<u>Thousand euros</u>
Opening balance	1,939
Net increase for the year	4,371
	<u>6,310</u>

2003

<u>Deferred tax asset</u>	<u>Amount</u>
	<u>Thousand euros</u>
Provision for estimated losses on projects	1,894
Other provisions	10
Other items	35
	<u>1,939</u>

22.6 During the year 2004 and 2003, the following tax incentives were generated and are pending application (together with those generated in prior years):

2004

	<u>Amount</u>
	<u>Thousand euros</u>
Tax credits:	
—R&D investments, export expenses and professional training expenses	4,711
—Tax credits for reinvestment	5,062
—Tax credits for double taxation	2,075
	<u>11,848</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

22. TAX SITUATION (continued)

2003

	<u>Amount</u> <u>Thousand euros</u>
Deductions:	
—R&D investment, export expenses and professional training	711
—Deductions for reinvestment	2,675
—Double taxation deductions	46
	<u>3,432</u>

The tax credits have been calculated in accordance with the limits laid down in tax legislation.

22.7 Tax-loss carryforwards recorded at the year end total K€ 18,313 (generated in 1999, 2000, 2001, 2002, 2003 and 2004), with respect to which the associated tax credit has been recognised in the amount of K€6,206.

22.8 The Group's tax returns are open to inspection for all taxes and the years 2002, 2003 and 2004.

23. THIRD-PARTY GUARANTEES AND OTHER CONTINGENT LIABILITIES

23.1 The provisions for liabilities and charges cover all the Company's contingent liabilities, which are the liabilities habitually affecting engineering companies. This liability covers the execution and completion of contracts entered into by the Company and by the joint ventures in which it participates. In this case, the Group companies' liability is joint and several and unlimited.

23.2 The general policy for hedging foreign currency operations consists of contracting currency futures (normally put options) to balance, on an overall basis, net flows expected from contracts. This policy is followed for all fixed-price contracts for significant amounts, coverage being obtained when the award of the project is certain by contracting futures that match cash flows expected from each project. The hedge is maintained until the project is completed. Future flows in foreign currency relating to customer contracts that have already been signed are duly covered by exchange rate hedges. A breakdown of exchange rate hedges in force at the year end (all of which expire in 2005) is as follows:

1) Sale of USD and purchase of euros:

	<u>Thousand USD</u>	<u>Thousand euros</u>
Total	63,785	50,667

2) Sale of USD and purchase of Japanese yen:

	<u>Thousand USD</u>	<u>Million yen</u>
Total	3,646	391

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

23. THIRD-PARTY GUARANTEES AND OTHER CONTINGENT LIABILITIES (continued)

3) Purchase of USD and sale of euros:

	<u>Thousand USD</u>	<u>Thousand euros</u>
Total	17,913	16,598

23.3 Appropriations to pensions funds relate to an annual voluntary contribution made to external funds for employees that join the plan and meet the Group's requirements. There are no employment or associated pension funds.

When permanent employees reach retirement at the age of 65, the Group pays a retirement bonus consisting of three gross monthly salary payments. The Group has made full provision for the total estimated amount of this benefit under the heading "Provisions for liabilities and charges", as explained in Note 20.

24. INCOME AND EXPENSE

24.1 A breakdown of transactions denominated in foreign currency (mainly US dollars) is as follows:

<u>Item</u>	<u>2004 Amount</u>	<u>2003 Amount</u>
	<u>Thousand euros</u>	<u>Thousand euros</u>
Purchases	77,017	92,714
Services received	30,028	23,793
Sales	230,924	219,538

24.2 The distribution of Revenues from the Group's ordinary activities by business line and market is as follows:

2004

<u>Market</u>	<u>Engineering services</u>	<u>Real estate</u>	<u>Amount</u>
		<u>Thousand euros</u>	
Domestic	320,406	247	320,653
Exports	491,888	—	491,888
Aggregate Revenues	<u>812,294</u>	<u>247</u>	812,541
Eliminated on consolidation			(220,598)
Consolidated Revenues			<u>591,943</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

24. INCOME AND EXPENSE (continued)

2003

<u>Market</u>	<u>Engineering services</u>	<u>Real estate activities</u>	<u>Amount</u>
	<u>Thousand euros</u>		
Domestic	337,428	1,033	338,461
Exports	469,771	0	469,771
Aggregate Revenues	<u>807,199</u>	<u>1,033</u>	808,232
Eliminated on consolidation			(287,424)
Consolidated Revenues			<u>520,808</u>

24.3 A breakdown of the Group's consolidated Revenues as stated in B).1 of the accompanying consolidated profit and loss account for the year 2004 and 2003 is set out below:

2004

	<u>Amount net of consolidation adjustments</u>
	<u>Thousand euros</u>
Técnicas Reunidas, S.A.	345,791
Initec Plantas Industriales, S.A.	68,451
Initec Infraestructuras, S.A.	9,822
Técnicas Reunidas Construcción y Montaje, S.A.	22
Técnicas Reunidas Metalúrgicas, S.A.	27,982
Técnicas Reunidas Ecología, S.A.	4,910
Española de Investigación y Desarrollo, S.A.	1,127
Eurocontrol, S.A.	21,807
Técnicas Reunidas Gulf, S.A.	10,104
Heymo Ingeniería, S.A.	5,086
KJT Engenharia Materiais	68,746
Damietta Project Management, Co.	237
Damietta LNG Construction	21,335
Termotécnica	(53)
Técnicas Reunidas Proyectos Internacionales, S.A.	3,092
Initec Chile	3,391
Layar S.A.	93
	<u>591,943</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

24. INCOME AND EXPENSE (continued)

2003

	Net adjustments on consolidation
	Thousand euros
Técnicas Reunidas, S.A.	278,731
Técnicas Reunidas Ecología, S.A.	1,182
Técnicas Reunidas Proyectos Internacionales, S. A.	3,192
Española de Investigación y Desarrollo, S. A.	87
Eurocontrol, S.A.	19,854
Initec, S.A.	88,081
Heymo Ingeniería, S.A.	4,281
KJT Engenharia Materiais	88,595
Damietta Project Management, Co.	1,391
Damietta LNG Construction	35,156
Termotécnica	(48)
Técnicas Reunidas Internacional, S.A.	7
Layar S.A.	299
	<u>520,808</u>

24.4 Employee benefit expense are analysed below as at 31 December 2004 and 2003:

	2004 Thousand euros	2003 Thousand euros
Wages and salaries	86,714	80,429
Employer's social security contributions	18,444	17,052
Severance payments	655	1,202
Other welfare expenses	2,182	2,103
	<u>107,995</u>	<u>100,786</u>

24.5 The following table shows the average number of Group employees during the year by category:

	2004 Average number of employees	2003 Average number of persons
Engineers and university graduates	896	900
Technical engineers, experts and skilled assistants	659	549
Administrative heads	173	159
Unskilled workers	281	360
Other	277	257
	<u>2,286</u>	<u>2,225</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

24. INCOME AND EXPENSE (continued)

24.6 Contributions by the Group companies to consolidated results are analysed below for the years 2004 and 2003:

<u>2004</u>	<u>Net profit/(loss)</u>
	<u>Thousand euros</u>
Técnicas Reunidas, S.A.	20,111
Técnicas Reunidas Internacional, S.A.	32,182
Termotécnica, S.A.	62
Técnicas Reunidas Construcción y Montaje, S.A.	(-2)
Técnicas Reunidas Ecología, S.A.	253
Técnicas Reunidas Metalúrgica, S.A.	34
Técnicas Reunidas Trade Panamá, S.A.	—
Española de Investigación y Desarrollo, S.A.	335
Técnicas Siderúrgicas, S.A.	(2)
Técnicas Reunidas Gulf Ltd	(11)
Green Fuel Corporación, S.A.	(13)
Productora de Diesel, S.A.	(35)
T, Reunidas Proyectos Internacionales, S.A.	(46)
Heymo Ingeniería, S.A.	313
Empresarios Agrupados, A.I.E.	—
Empresarios Agrupados Internacional, S.A.	131
Layar group	170
Ibérica del Espacio, S.A.	35
Initec Plantas Industriales, S.A.	7,428
Initec Infraestructuras, S.A.	263
KJT Engenharia Materiais	811
Damietta Project Management, Co.	15
Damietta LNG Construction	(5,908)
Reciclaguilar, S.A.	(28)
Initec Chile, S.A.	(4)
Explotaciones Varias, S.A.	(56)
Eurocontrol, S.A.	643
	<u>56,681</u>
Eliminated on consolidation	<u>(26,329)</u>
Consolidation adjustments	<u>(279)</u>
Results contributed	<u>30,073</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

24. INCOME AND EXPENSE (continued)

The net result contributed by each company to consolidated results includes the results of the JVs listed in point 24.7.

<u>2003</u>	<u>Gross profit/(loss)</u>	<u>Net profit/(loss)</u>
	<u>Thousand euros</u>	
Técnicas Reunidas, S.A.	12,264	12,264
Técnicas Reunidas Internacional, S.A.	125	81
Termotécnica, S.A.	65	42
Técnicas Reunidas Construcción y Montaje, S.A.	(17)	(11)
Técnicas Reunidas Ecología, S.A.	467	303
Técnicas Reunidas Metalúrgica, S.A.	3	2
Técnicas Reunidas Trade Panamá, S.A.	—	—
Española de Investigación y Desarrollo, S.A.	(865)	(562)
Técnicas Siderúrgicas, S.A.	15	10
T, Reunidas Proyectos Internacionales, S.A.	(73)	(48)
Heymo Ingeniería, S.A.	423	276
Empresarios Agrupados, A.I.E.	—	—
Empresarios Agrupados Internacional, S.A.	—	—
Layar group	919	594
Ibérica del Espacio, S.A.	—	—
Initec, S.A.	4,377	5,141
KJT Engenharia Materiais	1,058	1,058
Damietta Project Management, Co.	83	69
Damietta LNG Construction	892	498
Reciclaguilar	—	—
Group joint ventures	<u>17,079</u>	<u>16,991</u>
Profit/(Loss)	36,815	36,708
Consolidation adjustments	<u>(174)</u>	<u>(174)</u>
Results contributed	<u>36,641</u>	<u>36,534</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

24. INCOME AND EXPENSE (continued)

24.7 A breakdown of gross results contributed by JVs is as follows:

<u>2004</u>	<u>Registered office</u>	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>	<u>Gross profit/(loss)</u> Thousand euros
Joint ventures in Spain and Europe					
UTE no, 1260 (I.)	Spain	33.33%	—	33.33%	142
UTE no, 1310 (Me.)	Spain	14.00%	—	14.00%	334
UTE no, 3100 (La.)	Spain	50.00%	—	50.00%	(1)
UTE no, 3110 (Ce.)	Spain	50.00%	—	50.00%	(5)
UTE no, 7102 (Lo.)	Spain	55.00%	—	55.00%	70
UTE no, 7107 (S.A.)	Spain	70.00%	—	70.00%	(55)
UTE no, 7147 (L.B.)	Spain	50.00%	—	50.00%	(13)
UTE no, 7179 (S.P.)	Spain	50.00%	—	50.00%	10
UTE no, 7340 (Pl.)	Spain	57.50%	—	57.50%	41
UTE no, 7119 (B.)	Spain	50.00%	—	50.00%	(25)
UTE no, 7719 (Co.)	Spain	50.00%	—	50.00%	41
UTE no, 4400 (R.M.)	Spain	40.00%	40.00%	80.00%	(6)
UTE no, 4342 (C.C.)	Spain	50.00%	—	50.00%	46
UTE no, 7161 (S.T.)	Spain	50.00%	—	50.00%	1
UTE no, 7169 (A.R.)	Spain	70.00%	—	70.00%	21
UTE no, 4490 (R.)	Spain	45.00%	—	45%	59
UTE no, 7186 (S.M.)	Spain	50.00%	—	50%	32
UTE no, 4415 (Li.)	Spain	50.00%	—	50%	11
UTE no, 7068 (Ltt)	Spain	50.00%	—	50.00%	56
UTE no, 7973 (Alb)	Spain	70.00%	—	70.00%	21
UTE no, 7934 (ISP)	Spain	50.00%	—	50.00%	(8)
UTE no, 7975 (Mn)	Spain	50.00%	—	50.00%	(27)
UTE no, 7026 (Lml)	Spain	25.00%	—	25.00%	(3)
UTE no, 7003 (SL)	Spain	50.00%	—	50.00%	(1)
UTE no, 7925 (Snt)	Spain	50.00%	—	50.00%	(12)
UTE no, 7908 (Pnt)	Spain	65.00%	—	65.00%	4
UTE no, 7901 (Pb)	Spain	50.00%	—	50.00%	1
UTE no, 7906 (Eli)	Spain	50.00%	—	50.00%	2
UTE no, 7189 (TT2)	Spain	50.00%	—	50.00%	20
UTE no, 8326 (Hlv)	Spain	30.00%	—	30.00%	(154)
UTE no, 8338 (Ctg)	Spain	30.00%	—	30.00%	384
UTE no, 8211 (Bbg)	Spain	33.00%	—	33.00%	674
UTE no, 8372 (TIN)	Spain	27.00%	—	27.00%	(75)
Subtotal					<u>1,585</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

24. INCOME AND EXPENSE (continued)

<u>2004</u>	<u>Registered office</u>	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>	<u>Gross profit/(loss)</u> <u>Thousand euros</u>
Joint ventures in Asia					
UTE no, 1630 (G.)	China	90.00%	—	90.00%	(678)
UTE no, 1640 (J.S.)	China	90.00%	—	90.00%	272
UTE no, 1640 (J.Su.)	China	90.00%	—	90.00%	3,294
UTE no, 2860 (E.)	China	—	99.00%	99.00%	4,769
UTE no, 2880 (O.)	China	—	99.00%	99.00%	7,755
UTE no, 2970 (Wu.)	China	—	99.00%	99.00%	17,948
UTE no, 2990 (Wi.)	China	—	99.00%	99.00%	2,014
UTE no, 3325 (M.)	Russia	95.00%	5.00%	100.00%	18
Subtotal					<u>35,392</u>
Joint ventures in Africa					
UTE no, 1100 (A.)	Spain	50.00%	—	50.00%	66
UTE no, 8344 (Ma.)	Morocco	7.50%	—	7.50%	1,503
UTE no, 1430 (As.)	Madrid	95.00%	4.00%	99.00%	1,106
UTE no, 1530 (KJT)	Egypt	85.00%	15.00%	100.00%	(4,180)
UTE no, 1540 (Da.)	Egypt	85.00%	15.00%	100.00%	349
Subtotal					<u>(1,156)</u>
Joint ventures in the rest of the world					
(South America)					
UTE no, 7320 (Ter.)	Brazil	41.00%	—	41.00%	261
UTE no, 1170 (E.)	Spain	95.00%	4.00%	99.00%	(543)
UTE no, 1170 (E) CTR/EU	Ecuador	95.00%	4.00%	99.00%	437
UTE no, 8210 (Cog)	Peru	50.00%	—	50.00%	57
UTE no, 8217 (Pmp)	Peru	50.00%	—	50.00%	57
UTE no, 8380 (HDT)	Chile	100.00%	85.00%	10.00%	5
UTE no, 8353 (M.H.)	Chile	100.00%	—	15.00%	1,690
Subtotal					<u>1,964</u>
Total Group joint ventures					<u><u>37,785</u></u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

24. INCOME AND EXPENSE (continued)

<u>2003</u>	<u>Gross profit/(loss)</u> <u>Thousand euros</u>
Joint ventures in Spain and Europe	
UTE nº 1380 (G.) (Spain)	21
UTE nº 1260 (I.) (Spain)	(5)
UTE nº 1310 (Me.) (Spain)	(25)
UTE nº 3100 (La.) (Spain)	(33)
UTE nº 3110 (Ce.) (Spain)	(15)
UTE nº 7102 (Lo) (Spain)	31
UTE nº 7107 (S. A.) (Spain)	97
UTE nº 7147 (L. B.) (Spain)	43
UTE nº 7179 (S. P.) (Spain)	10
UTE nº 7340 (Pl.) (Spain)	(8)
UTE nº 7119 (B.) (Spain)	13
UTE nº 7119 (P.) (Spain)	5
UTE nº 7719 (Co.) (Spain)	(23)
Subtotal	<u>111</u>
Joint ventures in Asia	
UTE nº 1630 (G.) (China)	765
UTE nº 1640 (J. Se.) (China)	278
UTE nº 1640 (J. Su.) (China)	1,377
UTE nº 2860 (E.) (China)	130
UTE nº 2880 (O.) (China)	53
UTE nº 2970 (Wu.) (China)	265
UTE nº 2990 (Wi.) (China)	50
UTE nº 3325 (M.) (Russia)	(10)
Subtotal	<u>2,908</u>
Joint ventures in Africa	
UTE nº 2850 (A.) (Algeria)	122
UTE nº 8344 (Ma.) (Morocco)	(23)
UTE nº 1430 (As.) (Egypt)	(329)
UTE nº 1530 (K.) (Egypt)	12,759
UTE N° 1540 (D.) (Egypt)	419
Subtotal	<u>12,948</u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

24. INCOME AND EXPENSE (continued)

<u>2003</u>	<u>Gross profit/(loss)</u> <u>Thousand euros</u>
Joint ventures in the rest of the world (South America)	
UTE n° 7320 (T.) (Brazil)	1,269
UTE n° 1170 (E.) (Ecuador)	(1,495)
Consorcio TR/EU (Ecuador)	1,338
Subtotal	<u>1,112</u>
Total Group joint ventures	<u>17,079</u>

24.8 The following joint ventures are not included in the scope of consolidation as they do not affect the true and fair view of the Group's financial position:

	<u>% interest</u>		<u>% interest</u>
UTE no. 3739 (Atch)	43,00%	UTE no. 3793 (Elc)	43,00%
UTE no. 3812 (DIN)	46,73%	UTE no. 3769 (Trll)	43,00%
UTE no. 3814 (CGE)	43,00%	UTE no. 3785 (MD)	41,66%
UTE no. 3817 (PD Bp)	46,70%	UTE no. 3816 (IB)	43,00%
UTE no. 3738 (CFT)	43,00%	UTE no. 3737 (E.O. A.)	43,00%
UTE no. 3729 (JC)	43,00%	UTE no. 3819 (DHC)	46,70%
UTE no. 3734 (Grna)	43,00%	UTE no. 3813 (GHS)	43,00%
UTE no. 3807 (Srv)	41,66%	UTE no. 3797 (EBB)	22,50%
UTE no. 3818 (CRS)	41,66%	UTE no. 3808 (EBB GL)	20,00%
UTE no. 3801 (Term)	41,00%	UTE no. 3761 (UNS)	43,00%
UTE no. 3737 (OCNA)	43,00%	UTE no. 3758 (Nrs)	43,00%
UTE no. 7101 (Alt)	Winding up	UTE no. 7103 (Brc)	7,50%
UTE no. 1110 (Mrr)	50,00%	UTE no. 3736 (Alm)	43,00%

These JVs account for projects on a percentage-of-completion basis and conclude agreements whereby the members directly record the relevant proportion of the JV's results each year.

In accordance with the accounting policies applied, these joint ventures do not record any significant assets or liabilities, and the Revenues, income and expenses recorded in their accounts, after consolidation eliminations, do not materially affect any of the individual lines in the consolidated financial statements.

25. OTHER INFORMATION

25.1 Total remuneration paid to the members of the Parent Company's Board of Directors during the year and other relevant items are analysed below:

The members of the Board of Directors that also perform executive duties received K€528 and K€3 for salaries and benefits-in-kind.

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

25. OTHER INFORMATION (continued)

- 25.2 The Parent Company's directors have nothing to report with respect to the provisions of section 4 of Article 127.3 of the Spanish Companies Act except for those posts held and functions carried out in companies of the Técnicas Reunidas Group, and the situation of Mr Juan Carlos Muñoz Ortega who is the Administrator of Instituto Sectorial de Promoción y Gestión de Empresas, S.A., which carries out a kind of activity which is identical, analogous or complementary to that which makes up the corporate objects of Técnicas Reunidas, S.A.
- 25.3 The Group estimates that the impact of price fluctuations affecting listed equities and exchange rates that are not hedged subsequent to the year end will not significantly affect the financial statements due to existing latent capital gains and provisions recorded.
- 25.4 The fees charged to Group companies by PricewaterhouseCoopers Auditores, S.L. for audit services total K€168.
- The fees charged by PricewaterhouseCoopers Auditores, S.L. or other companies using the PricewaterhouseCoopers trademark for other services totalled K€79.
- The fees charged for other services by other audit firms totalled K€59.

25. ENVIRONMENT

Given the activities carried out by the group companies, the Group does not have any environmental liabilities, expenses, assets, provisions or contingencies that could be regarded as significant in relation to its net worth, financial situation and results. No specific breakdowns relating to environmental issues are therefore included in these consolidated financial statements.

26. POST-BALANCE SHEET EVENTS

There are no relevant post-balance sheet events that could have a significant impact on these consolidated financial statements.

27. STATEMENT OF SOURCE AND APPLICATION OF FUNDS

In accordance with the regulations governing the preparation of consolidated financial statements (Royal Decree 1815/91 - 20 December), the Company chooses to present a statement of source and application of funds in its consolidated financial statements.

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

27. STATEMENT OF SOURCE AND APPLICATION OF FUNDS (continued)

The consolidated statements of source and application of funds as at 31 December 2004 and 2003 are as follows:

<u>APPLICATION OF FUNDS</u>	<u>2004</u>	<u>2003</u>	<u>SOURCES OF FUNDS</u>	<u>2004</u>	<u>2003</u>
	<u>Thousand euros</u>			<u>Thousand euros</u>	
Formation expenses		—	Funds generated from operations:		
Purchases of fixed assets			Attributed to Parent		
Intangible fixed assets	2,423	1,291	Company	34,259	21,922
Tangible fixed assets	2,560	2,607	Attributed to minority		
Financial investments	5,089	199	interests	190	(131)
Dividends			Net changes in consolidation		
From Parent Company	7,200	26,818	scope		
Capital reduction	97		Minority interests		125
Goodwill			Capital grants and other		
Repayment or reclassification			deferred income	9	3,299
to S/T of L/T debts		169	Proceeds from disposal of		
Transfer to S/T of trade			fixed assets		
provisions			Intangible fixed assets		139
Application of trade			Tangible fixed assets	360	20,807
provisions			Decreases:		
Transfer to provision for			Financial investments	251	2,114
liabilities and charges	7,153	(11,667)	Transfer of financial		
Net movement in reserves . . .	867		investments to S/T		
Total applications	<u>25,389</u>	<u>19,417</u>	Formation expenses		
Surplus of applications over			Deferred expenses	8	
sources of funds	<u>9,930</u>	<u>28,858</u>	Long-term debt arranged	242	
			Total sources	<u>35,319</u>	<u>48,275</u>
			Surplus of sources over		
			application of funds	<u></u>	<u></u>

TÉCNICAS REUNIDAS GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2004 AND 2003 (continued)

27. STATEMENT OF SOURCE AND APPLICATION OF FUNDS (continued)

<u>Calculation of funds generated from/(absorbed by) operations</u>	<u>2004</u>	<u>2003</u>
	Thousand	euros
Profit for the year	30,073	36,403
Depreciation and amortisation	2,994	2,623
Amortisation of goodwill on consolidation	279	279
Losses on sale of tangible fixed assets	(191)	(16,550)
Transfer to provision for liabilities and charges	31,661	—
Transfer to trade provisions	1,751	673
Other net variances	—	1,225
Reversal of provisions for liabilities and charges	(32,065)	(2,731)
Grants released to income for the year	(243)	—
Funds generated from operations	<u>34,259</u>	<u>21,922</u>
 <u>Changes in working capital</u>	 <u>2004</u>	 <u>2003</u>
	Thousand	euros
Called up share capital not paid	(8)	—
Inventories	2,034	3,585
Debtors	67,876	(6,639)
Creditors	(16,510)	(36,757)
Current asset investments	(60,712)	59,845
Cash at bank and in hand	18,568	11,296
Prepayments, accruals and deferred income	(1,318)	(2,472)
Increase/(reduction) in working capital	<u>9,930</u>	<u>28,858</u>

Free translation of the special review report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails

SPECIAL REVIEW REPORT ON CASH FLOW STATEMENTS

To the Board of Directors of Técnicas Reunidas, S.A.

1. We report on the accompanying additional disclosures of Técnicas Reunidas, S.A. and subsidiaries, which comprise the consolidated cash flow statement for the year ended 31 December 2003 and 2004, and the related notes that have been prepared for the purposes of inclusion in the Spanish Prospectus (*Folleto Informativo de Oferta Pública de Venta de Acciones*) of Técnicas Reunidas, S.A. The said additional disclosures have been prepared in order to complement the Spanish statutory consolidated annual accounts of Técnicas Reunidas, S.A. and subsidiaries to the extent necessary to meet the disclosure requirements of EU Regulation 2004-809.
2. It is the responsibility of the Board of Directors of Técnicas Reunidas, S.A. to prepare the additional disclosures in accordance with the requirements of EU Regulation 2004-809 and the guidelines issued by the Committee of European Securities Regulators (CESR) relating the consistent application of the said guidance (CESR/05-054b).

Prevailing Spanish accounting standards applicable to the preparation of the consolidated annual accounts of Técnicas Reunidas, S.A. and subsidiaries referred to above do not include the cash flow statement and, consequently, no Spanish accounting principles exist governing the methodology of preparation and compilation of this consolidated financial statement. Hence, as stated in the accompanying notes, as set forth in paragraph 86 of the CESR Recommendation for consistent implementation of EU Regulation 2004-809 (CESR/05-054b), the Board of Directors of Técnicas Reunidas, S.A. have used EU-endorsed International Accounting Standard 7 “Cash Flow Statements” as its compilation method and consolidated cash flow statement model. This method has been applied to the financial information contained in the consolidated annual accounts prepared in accordance with generally accepted accounting principles and standards in Spain.

3. It is our responsibility to provide the opinion required by Annex I item 20.1 of EU Regulation 2004-809, and this should, under no circumstances, be considered as an audit report on annual accounts. We do not accept any responsibility for any information derived from financial statements previously reported on and used in the compilation of the additional disclosures beyond that owed to those to whom any reports on those financial statements were addressed by us at the dates of their issue.

4. Our work consisted primarily of considering the evidence supporting the additional disclosures and discussing the additional disclosures with the officials responsible for financial and accounting matters. We planned and performed our work to obtain all the information and explanations we considered necessary to provide us reasonable assurance that the additional disclosures have been properly prepared on the basis stated in the accompanying notes.
5. In our opinion, the accompanying additional disclosures have been properly prepared in accordance with the basis stated in the accompanying notes.
6. This report has been prepared at the request of Técnicas Reunidas, S.A. in relation to the process of issuance of the International Offering Memorandum and verification and registration of the Spanish offering documentation Prospectus (*Folleto Informativo de Oferta Pública de Venta de Acciones*) on the Automated Quotation System of the shares of Técnicas Reunidas, S.A. in the Spanish stock exchanges of Madrid, Barcelona, Bilbao and Valencia and, accordingly, should not be used for any other purpose or published in any other offering documentation other than the aforementioned documents, without our previous written consent. We will not accept any responsibility to parties other than the addressee of this report.

PricewaterhouseCoopers Auditores, S.L.

Originally signed by Lorenzo López
Partner

29 May, 2006

Free translation of the statement of consolidated cash flows originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

Basis of presentation

TÉCNICAS REUNIDAS, S.A. has made additional disclosures to its consolidated financial statements, which includes the statement of consolidated cash flows for the year ended 31 December 2003 and 2004 and respective explanatory notes, which have been prepared for inclusion in the Spanish Prospectus (*Folleto Informativo de Oferta Pública de Venta de Acciones*) of Técnicas Reunidas, S.A.. These Cash Flow Statements have been prepared in order to supplement the consolidated financial statements of TÉCNICAS REUNIDAS, S.A. and its subsidiary companies (“The Group”) in order to comply with the reporting and disclosure requirements set down in Regulation nº 809/2004 of the European Union.

Spanish accounting legislation in force governing the formulation of the consolidated financial statements of the Group referred to above does not contemplate the statement of cash flows, and, consequently, there are no Spanish accounting principles that regulate the methodology for the preparation and compilation of this financial statement. That is why, as indicated in the accompanying explanatory notes to the statement, under paragraph 86 of the implementation Recommendation of the CESR, consisting of Regulation 809/2004 of the European Union (CESR/05-054b), the method for the compilation and model of the consolidated cash flow statement is that set out in International Accounting Standard 7, “Cash flow statements” adopted by the European Union. This method has been applied to the financial information contained in the consolidated financial statements prepared under generally accepted accounting principles in Spain.

The cash flow statements at 31 December 2004 set out herein, prepared in accordance with the financial reporting under generally accepted accounting principles in Spain and presented using the IAS 7 model (herein the “Spanish GAAP cash flow statement”) differs from the cash flow statement prepared for the same period under International Financial Reporting Standards (IFRS) and presented under IAS 7 (herein the “IFRS cash flow statement”) set out in the consolidated financial statements prepared under IFRS for the year ended 31 December 2005. The main differences between these two cash flow statements at 31 December 2004 are set out below:

—Intangible assets: in a cash flow under Spanish GAAP, R&D expense affect the cash flows generated by operations as regards the amortization and Net cash generated by investing activities as regards purchases of intangible assets, whereas under IFRS they are directly included as a netting item in the profit for the year.

—Interests paid: in a cash flow under Spanish GAAP the shown amount is lower to the amount shown under the IFRS Cash Flows as some commissions under IFRS are reclassified in financial expense, whereas in a cash flow under Spanish GAAP they are classed in other external services and consequently they are included in the cash flows generated by operating activities.

—Cash generated from operations: the differences between both cash flow statements arise from the different result and the different reclassifications mentioned above, as well as from different reclassifications to current assets and liabilities. In particular the variations in Revenues and Raw materials and consumables are due to the application of the hedge accounting to the positions on foreign currencies. The difference in inventories is mainly due to the adjustment made to the bid costs. The variations of net provisions for liabilities and charges, Trade payables and Trade and other receivables are originated by the reclassification of provisions for the application of hedge accounting to the differences on foreign currencies.

Free translation of the statement of consolidated cash flows originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

CONSOLIDATED CASH FLOW STATEMENT
(In thousands of euros)

	Year ended 31 December	
	2004	2003
Cash flows from operating activities		
Profit for the year	30.223	36.534
Adjustments:		
—Taxes	(4.626)	107
—Depreciation/amortisation of PPE and intangible assets	2.994	2.623
—Net movements in provisions for liabilities and charges	(5.806)	9.269
—Goodwill amortization	279	279
—Financial revenue	(3.469)	(3.124)
—Other financial income and expense	125	(958)
—Net exchange differences	511	2.818
—Share in results obtained by associates	(62)	(78)
—Deferred income recycled in other operating income	(243)	(119)
—Proceeds from disposals of other property, plant and equipment	(201)	(16.553)
—Net movements in provisions for tangible assets	0	218
Changes in working capital		
—Inventories	(2.034)	(3.585)
—Trade and other receivables	(67.876)	4.604
—Other receivables	15.681	(25.700)
—Trade payables	24.033	12.993
—Current tax liabilities	(3.234)	6.376
—Other payables	7.912	11.853
Cash generated from operations	(5.793)	37.557
Interest paid	(677)	(301)
Taxes paid	0	0
Net cash generated from operating activities	(6.470)	37.256
Cash flows from investing activities		
Purchases of property, plant and equipment	(2.560)	(2.607)
Purchases of intangible assets	(2.423)	(1.291)
Acquisition of associates	(4.838)	(96)
Acquisition of other long-term assets	(318)	(103)
Proceeds from disposals of other property, plant and equipment	201	16.553
Interest received	165	186
Net cash generated from investing activities	(9.773)	12.642
Cash flows from financing activities		
Proceeds from borrowings	7.241	11.531
Dividends paid	(26.861)	(21.481)
Net cash generated from financing activities	(19.620)	(9.950)
Net change in cash and cash equivalents	(35.863)	39.948
Cash and cash equivalents at beginning of the year	151.209	111.261
Cash and cash equivalents at end of the year	115.346	151.209

Free translation of the statement of consolidated cash flows originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

Notes to the cash flow statements

Cash and cash equivalents include cash, demand deposits at credit institutions, other short-term highly liquid investments with an original maturity of three months or less and bank overdrafts with no or insignificant risks of changes in value.

As at 31 December 2004 and 2003 there were no amounts with restricted availability due to warranties, pledges or collaterals to third parties.

The Group has the following unused credit lines:

<u>Variable rate:</u>	<u>2004</u>	<u>2003</u>
—maturing in less than one year	24.040	24.040
—maturing in more than one year	15.855	3.611
	<u>39.895</u>	<u>27.651</u>

ANNEX A—SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN IFRS-EU AND US GAAP

The Company's consolidated financial statements as of December 31, 2005 and 2004 and for the year then ended have been prepared in accordance with IFRS-EU, which differ in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). The Company has not prepared the IFRS-EU Financial Statements included in this offering memorandum in accordance with US GAAP. A brief description of principal differences between the Company's stated accounting policies in Note 2 to its IFRS-EU Financial Statements and US GAAP is outlined below. These differences have not been quantified. In making an investment decision, prospective purchasers of shares must rely upon their own examination of the Company, the terms of this offering memorandum and the financial and other information contained in this offering memorandum. Potential investors should consult their own advisors for an understanding of the differences between IFRS-EU and US GAAP and how those differences could affect the financial information contained herein.

The following is a summary of certain differences between IFRS-EU and US GAAP as of the dates of our IFRS-EU Financial Statements included in this offering memorandum. The Company is responsible for preparing the summary below. Potential investors should not take this summary to be an exhaustive list of all differences between IFRS-EU and US GAAP. The following discussion does not purport to identify all disclosures, presentation or classification differences that would affect the manner in which transactions, events, or results are presented in the IFRS-EU Financial Statements or notes thereto. The Company has not prepared a complete reconciliation of its IFRS-EU Financial Statements and related footnotes disclosures between IFRS-EU and US GAAP and has not quantified such differences. Had the Company undertaken any such quantification or preparation or reconciliation, other potentially significant accounting and disclosure differences may have come to their attention which are not identified below. Accordingly, the Company can provide no assurance that the identified differences in the summary below represent all of the principal differences relating to the Company's financial position, operations and cash flows. Further, no attempt has been made to identify future differences between IFRS-EU and US GAAP as the result of prescribed changes in accounting standards, transactions or events that may occur in the future. Regulatory bodies that promulgate IFRS-EU and US GAAP have significant projects ongoing that could affect future comparisons such as this one. Future developments or changes in either IFRS-EU or US GAAP may give rise to additional differences between IFRS-EU and US GAAP, which could have a significant impact on the Company.

Consolidation

IFRS-EU follows a principles based view of consolidation. Under IFRS-EU consolidation is focused on the concept of the power to control. When control is not evident, IFRS-EU bases consolidation on the division of risks and rewards. IFRS-EU states that an investment should be consolidated if it has the following characteristics:

- the investment conducts its activities on behalf of the investor;
- the investor has decision making power over the investment;
- the investor has the right to obtain the majority voting power in the investment; or
- the investor has the majority of the risks and rewards in the investment.

Accounting for consolidation under both IFRS-EU and US GAAP require significant judgments by management. However, US GAAP follows a more complex, rules-based view of consolidation, where form can have a greater impact on the accounting. As a result, there is no single, comprehensive piece of guidance that dictates consolidation. Instead, consolidation is based upon two models: the voting interest model and the variable interest model. Under the voting interest model,

companies consolidate based upon their voting interest in investments. Under the variable interest model, variable interest entities (“VIEs”) in which a parent does not have a controlling voting interest but, as the primary beneficiary of that entity, absorbs the majority of the VIEs expected losses or residual returns, must also be consolidated.

Subsidiaries held for sale and, accordingly, not consolidated must be classified either as available for sale or held for trading securities and marked to fair market value at each balance sheet date. Under US GAAP, investors must consolidate all investments that they control regardless of their intent to sell the investment.

Investments in Joint Ventures

Under IFRS-EU interests in joint ventures can either be proportionate consolidated or accounted for under the equity method. The Company consolidates its interest in joint ventures using the proportionate consolidation method. Proportionate consolidation requires the venturer’s share of the assets, liabilities, income and expenses to be combined on a line by line basis with similar items in the venturer’s financial statements or reported as a separate line item in the financial statements. Under US GAAP, proportionate consolidation is not permitted but rather venturers need to apply the equity method to recognize the investment in a jointly controlled entity.

Revenue Recognition

The Company recognizes revenue under the percentage of completion method.

Under IFRS-EU the percentage of completion method is required for recognizing revenue and expenses if the outcome can be measured reliably. When the outcome of the contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the balance sheet date. The zero profit method is used when the final outcome cannot be estimated reliably. This recognizes revenue only to the extent of contract costs incurred that are expected to be recovered. IFRS-EU provides limited guidance on the use of estimates.

Under US GAAP the percentage of completion method is preferred and US GAAP provides detailed guidance on the use of estimates. The following two approaches are allowed under this method:

- The revenue approach (similar to IFRS-EU) multiplies the estimated percentage of completion by the estimated total revenues to determine earned revenue and multiplies the estimated percentage of completion by the estimated total contract costs to determine the cost of earned revenue; and
- The gross profit approach (different from IFRS-EU) multiplies the estimated percentage of completion by the estimated gross profit to determine the estimated gross profit earned to date.

Under IFRS-EU and US GAAP, losses are recognized when incurred or when the expected contract costs exceed the expected contract revenue.

Under IFRS-EU, the completed contract method is not permitted. Under US GAAP, the completed contract method can be used in rare circumstances, when the extent of progress towards completion is not reasonably measurable. Under the completed contract method, income is recognized only when a contract is completed or substantially completed.

Capitalization of Borrowing Costs

In accordance with the benchmark alternatives under IFRS-EU, interest costs are recognized as an expense in the period in which they are incurred.

Under US GAAP, interest costs incurred on qualifying assets must be capitalized and amortized over the useful life of the assets.

Goodwill

Under IFRS-EU, goodwill was amortized until December 31, 2003 on a systematic basis over its estimated useful lives generally not to exceed twenty years, subject to impairment reviews in the event facts and circumstances indicate that the recorded value of the assets may not be recoverable. Effective January 1, 2004, goodwill is no longer amortized but, instead, is tested for impairment annually, or more frequently based upon facts and circumstances. Under IFRS-EU, goodwill resulting from a business combination needs to be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. The carrying amount of a cash-generating unit, or group of cash generating units, including goodwill allocated, is then compared with the recoverable amount, defined as the higher of fair value less cost to sell or the value in use. If the carrying amount exceeds the recoverable amount, an impairment charge is recorded to reduce the carrying amount of the cash-generating unit (group of units) to its recoverable amount. The impairment charge is recognized to first reduce the carrying amount of goodwill allocated to the cash-generating unit (group of units) under review to zero. In a second step, the carrying amount of the remaining individual assets of the cash-generating unit (group of units) are reduced on a pro rata basis, however, not below the higher of their fair values less costs to sell, their values in use or zero.

Under US GAAP, goodwill amortization ceased effective January 1, 2002. Subsequently, goodwill was required to be tested for impairment annually at a reporting unit level, or more frequently based upon facts and circumstances. Under US GAAP, the goodwill impairment test involves a two-step approach. In step one, the fair value and carrying amount of a reporting unit including goodwill are compared. If the fair value of the reporting unit is less than its book value, goodwill is considered to be impaired. In step two, the goodwill impairment amount is measured as the excess of its carrying amount over its implied fair value (i.e., fair value of the reporting unit minus fair value of individual identifiable assets and liabilities).

Impairment of Long Lived Assets

Under IFRS-EU, when events or changes in circumstances indicate possible impairment, the sum of expected discounted future cash flows is compared to the carrying amount of the respective assets. If the carrying amount of the asset exceeds the sum of the discounted future cash flows, an impairment loss exists and a write-down is necessary. The impairment loss is based on the recoverable amount (the higher of the asset's value-in-use and net selling price). Subsequent reversal of an impairment loss is required if certain criteria are met.

Under US GAAP, when events or changes in circumstances indicate possible impairment, the sum of expected undiscounted future cash flows, related to the fixed asset (or group of assets) being measured, is compared to the carrying amount of the respective assets. Estimates of future cash flows to test the recoverability of long-lived asset group should include only the future cash flows that are directly associated with and are expected to arise as a direct result of the use and eventual disposition of that asset group. If the carrying amount of the asset exceeds this value, an impairment loss exists and a write-down is necessary. The impairment charge is measured as the excess of carrying value over fair value. Fair value may be measured using quoted market prices in active markets, if available or using discounted future cash flows. Impairment losses cannot be reversed.

Available-for-Sale Investments

In accordance with IFRS-EU, gains or losses from a change in the fair value of available-for-sale investments are included in net equity as a separate component and recognized in the profit and loss accounts when the investment is sold. The movement in the fair value of a debt security denominated in a foreign currency related to the underlying movement in the exchange rates is reported in current earnings.

Under US GAAP, unrealized gains or losses in such investments are excluded from earnings and reported as a separate component of comprehensive income. Unrealized gains and losses represent the net change in fair value of an available-for-sale investment recognized but not yet received exclusive of any write-downs for impairment. The movement in the fair value of a security denominated in a foreign currency related to the underlying movement in the exchange rates is reported as a component of equity.

US GAAP prohibits the reversal of an impairment charge on available for sale debt and equity securities. IFRS requires changes in value of available for sale debt securities, identified as reversals of previous impairment, to be recognized in the income statement. IFRS, similar to US GAAP, prohibits reversal of impairment on available for sale equity securities.

Inventories

IFRS-EU and US GAAP require inventories be valued at the lower of cost or market principle. Under IFRS-EU, market is defined as net realizable value. Under US GAAP, market is defined as current replacement cost, except that market should not exceed net realizable value and it should not be less than the net realizable value reduced by an allowance for an approximate normal profit margin.

Under IFRS-EU, reversal of write-downs are required if certain criteria are met. Such reversals of write-downs are prohibited under US GAAP.

Government Grants

Under IFRS-EU government grants (or contributions) received as compensation for expenses already incurred are recognized in the income statement once the conditions for their receipt have been met and there is reasonable assurance that the grant will be received. Revenue based grants are deferred in the balance sheet and released to the income statement to match the related expenditure that they are intended to compensate. Capital based grants are deferred and matched with the depreciation on the asset for which the grant arises.

US GAAP is similar to IFRS-EU except when there are conditions attached to the grant. Revenue recognition is delayed until such conditions are met under US GAAP.

Deferred taxes

Generally, both IFRS-EU and US GAAP follow the liability method to account for deferred taxes. As such, deferred tax assets and liabilities need to be recorded for all temporary differences between the tax basis and the carrying amount recorded in the consolidated financial statements that reverse in future periods.

IFRS-EU requires recognition of the effects of a change in tax laws or rates when the change is “substantially” enacted. Thus, recognition may precede actual enactment. US GAAP requires recognition of the effects of a change in tax laws or rates upon the actual enactment date.

Under IFRS-EU, a deferred tax liability for taxable temporary differences associated with investments in subsidiaries, branches and associates is not recognized to the extent that (a) the parent,

investor or venturer is able to control the timing of the reversal of the temporary difference, and (b) the temporary difference will not reverse in the foreseeable future. Under US GAAP, a deferred tax liability for such taxable temporary differences is generally recognized, unless the earnings in the foreign subsidiary are considered permanently invested.

IFRS-EU requires that deferred tax assets initially be recognized when it is probable, defined as more likely than not, that taxable profits will be available against which the deferred tax asset can be utilized. Furthermore, the carrying amount of a deferred tax asset is reduced subsequently to the extent that it is no longer probable that sufficient taxable profits will be available to utilize the deferred tax asset. Under US GAAP, a deferred tax asset is initially recognized in full but is then reduced by a valuation allowance if it is more likely than not that some portion, or all, of the deferred tax asset will not be realized.

IFRS-EU also prohibits the recognition of deferred taxes for temporary differences relating to non taxable government grants. US GAAP requires recognition of deferred taxes for temporary differences related to non taxable government grants.

IFRS-EU requires deferred tax assets and liabilities to be classified as non-current. Under US GAAP, however, the classification of deferred tax assets and liabilities as current and non-current is determined by the classification of the underlying asset or liability to which the temporary difference relates.

Pension Provisions

IFRS-EU and US GAAP have similar fundamental approaches to accounting for employee benefit plans. The net obligation in respect of defined benefit pension plans and similar obligations is calculated using the projected unit credit method. Differences, however, can arise due to a number of differences in the details of the relevant standards, especially in respect of the additional minimum liability, the recognition of prior service costs and the amortization of actuarial gains and losses.

Under US GAAP, if the accumulated benefit obligation exceeds the fair value of plan assets, an additional minimum liability that is at least equal to the unfunded accumulated benefit obligation is recorded. Also, under US GAAP, an equal amount is capitalized as an intangible asset up to the amount of any unrecognized net transition obligation plus the unrecognized prior service costs, with the remainder charged against shareholders' equity as a component of other comprehensive income. Under IFRS-EU, there are no such requirements for the immediate recognition of an additional minimum pension liability.

Under IFRS-EU, the vested portion of past service cost, which is the increase in the present value of the obligation due to changes in the benefit entitlement that is allocated to prior periods service, is recognized immediately in full. Under US GAAP, both the vested and the unvested portions are amortized on a straight-line basis over the average future service lives of the active participants.

Under US GAAP, actuarial gains and losses are recognized as income or expense if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of the projected benefit obligation at that date (before deducting plan assets) or 10% of the fair value of any plan assets at that date. In accordance with IFRS-EU actuarial gains and losses may be recognized even if they fall within the aforementioned limits.

Under IFRS-EU, net pension assets are limited to the lower of (a) the asset resulting from applying the IFRS-EU standard, and (b) the net total of any unrecognized actuarial losses and past service costs and the present value of any available funds from the plan or reduction in future contributions to the plan. This concept of an asset limitation does not exist under US GAAP.

Provisions and Contingencies

Under IFRS-EU, provisions for contingencies are measured at the best estimate to settle the obligation which generally involves the expected value method (discounting is required) if it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligations. Where there is a range of possible outcomes, IFRS-EU require a provision for the expected value of the obligation to be made, weighting all possible outcomes by their associated probabilities.

Under US GAAP, a provision can only be discounted if the amount and the timing of payments are fixed or reliably determinable (considering the nature of provisions, this means that it can be difficult to account for a provision on a discounted basis). The Financial Accounting Standards Board (“FASB”) Interpretation (“FIN”) 14, “Reasonable Estimation of the Amount of a Loss” requires that if any outcome within the range is more likely, then that outcome should be accrued. If no amount within the range is a better estimate than any other, then the minimum amount should be accrued.

Guarantees

Under IFRS-EU, a guarantor recognizes a provision when an enterprise has a present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle that obligation and a reliable estimate of the obligation can be made.

Under US GAAP, a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. We have certain guarantees for the execution of work that may be formed in cash or through bank guarantees and must remain in place during a certain period as guarantee of the appropriate completion of the contracts.

Derivative Instruments

Under both IFRS-EU and US GAAP, derivative instruments are required to be recorded in the balance sheet as an asset or liability measured at fair value and changes in fair value are required to be recognized currently in earnings, unless specific hedge accounting criteria are met. However, there are differences in the definition of a derivative, in the criteria that must be met under IFRS-EU and US GAAP for hedge accounting to be applied and in how the changes in fair values are recorded in specific instances.

Leases

Under IFRS-EU, a lease is classified as a finance lease if the risks and rewards incident to ownership lie with the lessee. There are only narrative thresholds for useful life (described as major part) and present value test (described as substantially all of). Classifying a lease depends upon the substance of transaction rather than the form of the contact.

Under US GAAP, if any one of the following four criteria applies to a lease agreement, then the lessee must classify the lease as capital:

- (1) The lease transfers ownership of the leased assets to the lessee at the end of the lease term.
- (2) The lease contains a bargain purchase option.
- (3) The lease term is greater than or equal to 75% of the economic useful life of the leased asset.
- (4) The present value of the minimum lease payments are greater than or equal to 90% of the fair value of the leased asset.

IFRS-EU and US GAAP generally require that any gain or loss on a sale and leaseback transaction be deferred and amortized over future periods if the resulting lease is a capital or finance

lease. However, IFRS-EU require that the deferred amount be amortized over the lease term, while US GAAP requires that the deferred amount be amortized in proportion to the amortization of the leased asset.

IFRS-EU require immediate profit or loss recognition for a sale and leaseback transaction classified as an operating lease if the sale transaction is established at fair value because, in those situations, the sale transaction is deemed to be a normal sale transaction that would typically result in profit or loss being recognized immediately. If the sale price is less than the property's fair value, IFRS-EU require immediate loss recognition unless the loss is compensated by future rentals at a below-market price, in which case the loss is deferred and amortized in relation to the rental payments over the period that the asset is expected to be used. If the sale price is above fair value, IFRS-EU require that the excess over fair value be deferred and amortized over the period for which the asset is expected to be used.

US GAAP generally require profit or loss deferral on a sale and leaseback transaction that is classified as an operating lease.

US GAAP has significant requirements for accounting for sale and leaseback transactions.

Research and Development Costs

Under IFRS-EU, research costs should be expensed as incurred. In contrast, intangible asset arising from development (or from the development phase of an internal project) should be recognized as an intangible if, and only if, an enterprise can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits. Among other things, the enterprise should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- Its ability to reliably measure the expenditure attributable to the intangible asset during its development.

The ability to use the intangible asset is assessed primarily on the probability of obtaining regulatory approval. In all other circumstances, development costs are expensed as incurred.

Under US GAAP, research and development costs are expensed as incurred.

Minority Interest

Under IFRS-EU, the measurement of minority interest is based on the minority's proportion of the net fair values of acquired assets, liabilities and contingent liabilities assumed. Further, under IFRS-EU, minority interest is presented within equity.

Under US GAAP, minority interest is generally recorded at historical book value and presented outside of equity, between liabilities and equity.

Other Comprehensive Income

Generally under IFRS-EU, items such as cumulative translation adjustments and revaluations of available-for-sale marketable securities are recorded directly in equity.

Under US GAAP, such items as these are recorded in Other Comprehensive Income, which must be disclosed as a separate primary statement or as a category highlighted within the primary statement of change in shareholders' equity.

Disclosure Differences Between IFRS-EU and US GAAP

In addition to the summary of certain differences between IFRS-EU and US GAAP, which may affect consolidated income and total shareholders' equity, there are a number of significant disclosure differences.

Compared to IFRS-EU, the financial statement disclosures required under US GAAP can be more comprehensive in many areas including taxes, retirement and other post-retirement benefits, leasing, segment information, and related party disclosures. No attempt has been made to identify all disclosure differences or future disclosure differences as the result of prescribed changes in accounting standards. In addition, this description is not intended to address all differences in presentation, including classification, disclosure and display of financial information contained therein.

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