06

consolidated financial

statements, management report and
audit report 2006

TECNICAS REUNIDAS

TECNICAS REUNIDAS

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.

Contents of the Consolidated Annual Accounts of Tecnicas Reunidas, S.A. and Subsidiaries

Note

In 2006, the Técnicas Reunidas Group achieved further business growth, expanded into new markets and reaffirmed its position as a company of reference in the industries and countries in which it operates.

The company went public on 21 June 2006 which is particularly relevant and has increased the Group's visibility in international markets. The share price rose by 68.8% during the financial year.

TR remained well placed to take advantage of oil and gas market growth, in particular, where major new investments have been made.

Business growth and consolidation also continued in the energy and infrastructures areas, leveraging strong synergies with the rest of the divisions, knowledge of the Spanish market and a capacity to execute major domestic and international turnkey projects.

As a result, all TR's business areas posted figures that demonstrate both the consolidation of each activity and the Group's capacity to continue to grow in the coming years.

TR also underwent considerable organic growth during the year by obtaining resources in the international market.

In the domestic market, professional career and development plans were used to attract young professionals, combined with training programmes to build on the quality and loyalty of these resources.

The foundations are also being laid to efficiently manage a network of satellite offices in order to ensure the adequate assignment of resources to projects in each office's area of influence.

Relations were consolidated with engineering companies in different countries by means of medium- and long-term agreements designed to provide TR with the flexible resources it requires at all times.

Business evolution in each area is described below:

Oil and Gas

a) Refining and Petrochemicals

Based on its value and technological diversification and its good position in the oil and gas market, TR grew greatly in this area during 2006 in both refining and petrochemical as well as in upstream and natural gas.

TR continued with the quality execution of projects in countries such as Saudi Arabia, Kuwait, Vietnam, Mexico, Chile, Turkey, Algeria and Spain, among others.

Turnover from this business area increased considerably as a result of high revenues generated by the execution of projects awarded in previous years and by the awarding of new major projects during the year.

The most relevant projects are described below:

- In the first quarter, TR managed to convert the major refinery project of Saudi Aramco and Sumitomo in Rabigh, Saudi Arabia into a turnkey project, following the completion of phase one. This entailed an increase of €1,000 million in backlog.

- In October, TR began to execute phase one of its involvement in the project to extend REPSOL-YPF's refinery in Cartagena, Murcia, which will be the largest refining investment made in Spain in recent years.

  TR's involvement in this project includes, as key components, a 5,500 kt/a crude facility, a 2,500 kt/a hydrocracker, four 3,000 kt/a hydro-desulphurisers and a 300 kt/a isomerisation facility.

- In the third quarter of the year, TR commenced engineering work on the hydrocracker unit in the La Rábida refinery in Huelva. This complex refining unit forms part of the general extension of the refinery, which will be one of CEPSA's most significant projects.

- The award of the contract encompassing technology licensing, basic engineering, detail engineering and equipment supply for ENAEX's nitric acid plant in Chile, together with the successful completion of a similar unit for BASF in China, have served to further improve TR's worldwide positioning in this technology.

The Group also continued work on projects secured in previous years. The most representative projects are: Dung Quat refinery in Vietnam for Petrovietnam; coking facility for ENAP in Chile; Yanbu hydro-treatment complex for Saudi Aramco in Saudi Arabia; refining units for PEMEX in Minatitlán (Mexico); extension and refurbishment of the Tüpras refineries in Kirikale and Izmit (Turkey); and the cumene plant for CEPSA in Huelva.

b) Natural gas and Upstream

This business area also performed well in 2006, having increased penetration in new markets that are highly significant in terms of both investment volume and strategic value. The Gathering Centre 28 Project for KOC in Kuwait secured in 2004, was followed, in 2005, by the awarding to the Group of two major gas treatment contracts by Saudi ARAMCO and, in 2006, the first large turnkey project in Omán for the company Petroleum Development Oman, PDO, plus two contracts in Algeria.

- The "Saih Rawl Depletion Compression Project" is the first of a number of compression projects in which PDO will invest in coming years.

  The project consists of refurbishing and increasing the capacity of the compression plant at the Saih Rawl gas field to ensure that gas enters the central processing facility at the pressure required to continue to operate the field.

  This will include four 30 MW compression trains, separators for the gas entering the facility, other equipment for the processing plant and the extension of the gas capturing system.

- In Algeria, where TR continues to work on a number of projects, confirming its favourable positioning in the zone, two turnkey projects were secured in the upstream business area:

  The "RKF Upgrade Project" for the consortium formed by Sonatrach and Cepsa, consisting of the installation of additional compression systems and auxiliary equipment to increase compression capacity from 50 MSCFD to 70 MSCFD.

  Additionally, the consortium formed by Sonatrach, Total and Repsol awarded TR the project "TFT-Phase 2 Boosting Project" in Hassi Messaoud, comprising two 10 MNm^3/d gas processing trains, transport lines and the gas compression facility.

  During 2006 additional work was performed in relation to the major projects already completed at the natural gas liquefaction plant in Damietta, Egypt for SEGAS and at the Ourhoud oilfield in Algeria for CEPSA and SONATRACH.

In addition, preliminary engineering has been concluded on the MEDGAZ gas duct, a project that was converted into a project for TR in 2007.

Also, of special relevance in this area, was the formalization of a strategic agreement with Kawasaki Heavy Industries as a complement to TR technology for the complete development of GNL regasification terminals.

Energy

Activities in this business area were also particularly intense because work on the combined cycle projects in As Pontes (La Coruña, 800 MW) and Barranco de Tirajana (Gran Canaria, 220 MW), awarded by Endesa in December 2004, coincided with the Plana del Vent (Tarragona, 800 MW) project awarded by Gas Natural in February 2005.

The following new projects are also highly relevant:

The power plant at the compression facility for the Saih Rawl project (capacity of 120 MW) and the electricity distribution system connecting the Saih Rawl area with the Qarn Alam and Sail-Nihayda areas.

Phase two of the Escatrón plant for Global 3, in which the plant's capacity will be increased to 276 MW. During 2006 TR completed construction phase one, consisting of a single-cycle plant with a capacity of 186 MW.

The project will increase the generation capacity by 90 MW, in this installation which was also constructed by TR for the client with whom TR has worked since 2003.

In the nuclear arena, TR continued to work on the following main projects in 2006:

- Development of the new generation 1,500 MW economical simplified boiler water reactor (ESBWR) in association with General Electric Nuclear Energy.
- Design of two 1,300 MW reactors for the Lungmen plant (Taiwan) for Taiwan Power Corporation (TPC), also in association with General Electric Nuclear Energy.
- Property engineering for Finnish electricity company Teollisuuden Voima Oy (TVO) for the design of the only nuclear reactor under construction in Europe, the European pressurised reactor (EPR).
- Development of 120 MW pebble bed module reactor (PBMR) in South Africa for a consortium led by the South African electricity company Eskom.

TR also continued work on the first domestic biodiesel production projects awarded in 2005, such as the 40,000 tonnes/year biodiesel plant for Biocombustibles de Cuenca, S.A. in Cuenca and the biodiesel plant in Ocaña, Toledo for Biocarburantes Castilla La Mancha, S.A.

Infrastructures

This division continued to grow and to undertake numerous projects in a variety of fields, the most significant being projects related to airports, industrial facilities, and desalination plants as well as water treatment plants in general, in addition to projects for public administrations and similar bodies, such as car parks, arenas and sports centres.

The company has completed the Catey Airport for "Aerodom s. XX1" in the Samaná Peninsula in the Dominican Republic.

At the end of the year, construction was finished on along with the successful start up of the desalinization plant in Rambla de Morales, Almería.

TR was also awarded the contract for the design, project and construction management of the new area terminal of the Santiago del Compostela Airport.

TR obtained the construction contract as well as performing the actual construction of a carbon fibre manufacturing plant for Hexcel Composites in Illescas, Toledo.

The company developed the design and construction of the bioclimatic prototype house called the Magic Box for the ICEX, in the Future House exhibit in Beijing, China.

José Lladó
Chairman

Juan Lladó
Vice Chairman
Chief Executive Officer

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CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2006

CONSOLIDATED BALANCE SHEET
(In thousands of euros)

		At 31 December	
	Note	**2006**	**2005**
ASSETS			
Non-current assets			
Property, plant and equipment	**6**	19,572	16,284
Goodwill	**7**	1,242	1,242
Other intangible assets	**7**	13,816	3,492
Investments in associates	**8**	6,044	11,506
Deferred tax assets	**29**	18,384	24,020
Available-for-sale financial assets	**9**	2,113	687
Derivative financial instruments	**10**	426	187
Receivables and other assets	**13**	2,031	2,027
		63,628	**59,445**
Current assets			
Inventories	**12**	17,851	5,876
Trade and other receivables	**11**	718,434	473,008
Receivables and other assets	**13**	2,338	3,520
Derivative financial instruments	**10**	10,088	50
Financial assets at fair value through profit or loss	**14**	21,556	57,266
Cash and cash equivalents	**15**	346.584	258.135
		1,116,851	**797,855**
Total assets		**1,180,479**	**857,300**

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

CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2006

CONSOLIDATED BALANCE SHEET
(In thousands of euros)

		At 31 December	
	Note	2006	2005
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	**16**	5,590	5,590
Share premium account	**16**	8,691	8,691
Other reserves	**17**	1,137	1,137
Hedging reserve	**10**	9,106	(10,552)
Cumulative translation difference	**18**	414	(545)
Retained earnings	**19**	151,389	152,156
Interim dividend	**19**	(16,769)	(12,000)
Minority interests	**19**	**2,619**	**2,131**
Total equity		**162,177**	**146,608**
LIABILITIES			
Non-current liabilities			
Borrowings	**21**	2,024	-
Derivative financial instruments	**10**	-	726
Deferred tax liabilities	**29**	659	258
Other payables	**20**	1,070	889
Other liabilities		3,633	3,153
Employee benefit obligations	**22**	3,999	3,730
Provisions for liabilities and charges	**23**	23,126	45,238
		34,511	**53,994**
Current liabilities			
Trade receivables	**20**	883,260	550,685
Current tax liabilities		17,984	17,323
Borrowings	**21**	48,308	54,210
Derivative financial instruments	**10**	1,445	11,468
Other payables	**20**	22,548	17,991
Provisions for liabilities and charges	**23**	10,246	5,021
		983,791	**656,698**
Total liabilities		**1,018,302**	**710,692**
Total equity and liabilities		**1,180,479**	**857,300**

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

CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2006

CONSOLIDATED INCOME STATEMENT
(In thousands of euros)

		Year ended 31 December	
	Note	**2006**	**2005**
Ordinary revenues	**24**	1,234,528	685,114
Difference between opening and closing inventories		13,987	(741)
Own work capitalised		10,293	822
Raw materials and consumables		(805,152)	(380,134)
Employee benefit expense	**26**	(165,880)	(117,761)
Depreciation/amortisation and impairment loss charges	**6 and 7**	(3,938)	(2,712)
Transport expenses		(4,645)	(3,877)
Lease and royalty expenses	**27**	(21,113)	(11,402)
Other operating expenses	**25**	(200,542)	(145,849)
Other operating revenues	**25**	2,355	5,123
Operating profit		**59,893**	**28,583**
Profit on divestment	**34**	13,034	-
Financial results	**28**	5,195	6,837
Share in profit/loss of associates		464	1,172
Profit before taxes		**78,586**	**36,592**
Income tax	**29**	6,968	(5,030)
Profit for the year		**71,618**	**41,622**
Attributable to:			
Company's equity holders	**19**	71,233	41,167
Minority interests		385	455
		71,618	**41,622**
Earnings per share (expressed in euro per share)			
- Basic and diluted (a)	**30**	76.46	44.19
- Basic and diluted (b)	**30**	1.27	0.74

(a) Calculated based on 931,600 shares (see Note 30)
(b) Calculated based on 55,896,000 shares (see Note 30)

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

CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2006

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In thousands of euros)

	Attributable to the Company's equity holders							Minority interests (Note 19)	Total equity
	Share capital (Note 16)	Share premium account (Note 16)	Other reserves (Note 17)	Hedging reserve (Note 10)	Cumulative translation difference (Note 18)	Retained earnings (Note 19)	Interim dividend (Note 19)		
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**

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

CONSOLIDATED ANNUAL ACCOUNTS OF TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES AT 31 DECEMBER 2006

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In thousands of euros)

	Attributable to the Company's equity holders							Minority interests (Note 19)	Total equity
	Share capital (Note 16)	Share premium account (Note 16)	Other reserves (Note 17)	Hedging reserve (Note 10)	Cumulative translation difference (Note 18)	Retained earnings (Note 19)	Interim dividend (Note 19)		
Balance at 1 January 2006	**5,590**	**8,691**	**1,137**	**(10,552)**	**(545)**	**152,156**	**(12.000)**	**2,131**	**146,608**
Distribution of 2005 profits	-	-	-	-	-	(24,000)	12,000	-	(12,000)
Distribution of prior-years profits	-	-	-	-	-	(48,000)	-		(48,000)
Net effect on hedging reserves	-	-	-	19,658	-	-	-	-	19,658
Other movements	-	-	-	-	959	-	-	103	1,062
Profit for 2006	-	-	-	-	-	71,233	-	385	71,618
Interim dividend for 2006	-	-	-	-	-	-	(16,769)	-	(16,769)
Balance at 31 December 2006	**5,590**	**8,691**	**1,137**	**9,106**	**414**	**151,389**	**(16,769)**	**2,619**	**162,177**

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

CONSOLIDATED CASH FLOW STATEMENT
(In thousands of euros)

	Note	Year ended 31 December	
		2006	2005
Cash flows from operating activities			
Profit for the year		71,618	41,622
Adjustments:			
- Taxes	**29**	6,968	(5,030)
- Depreciation/amortisation of PPE and intangible assets	**6 and 7**	3,938	2,712
- Net movements in provisions for liabilities and charges		5,357	14,598
- Share in profit/loss of associates		(464)	(1,172)
- Other adjustments		-	(9,112)
Changes in working capital:			
- Inventories		(11,975)	(3,221)
- Trade and other receivables		(246.426)	(177.480)
- Other receivables		1,182	(2,819)
- Financial assets at fair value through profit or loss		35,710	(2,929)
- Trade payables		332,575	249,665
- Current tax liabilities		(270)	10,262
- Provisions for liabilities and charges and other payables		(20,708)	14,194
Other changes		(124)	(896)
Net cash generated from operating activities		**177,381**	**130,394**
Cash flows from investing activities			
Purchases of property, plant and equipment	**6**	(4,671)	(8,413)
Purchases of intangible assets	**7**	(12,879)	(1,011)
Acquisition of available- for- sale financial assets	**9**	(1,426)	(615)
Acquisition of associates	**8**	(476)	(101)
Acquisition of other non-current assets		(4)	(772)
Disposal of non-current assets		6,402	-
Other changes		-	711
Net cash generated from investing activities		**(13,054)**	**(10,201)**
Cash flows from financing activities			
Proceeds from borrowings		(3,878)	35,396
Dividends paid		(72,000)	(12,800)
Net cash generated from financing activities		**(75,878)**	**22,596**
Net change in cash and cash equivalents		**88.449**	**142.789**
Cash and cash equivalents at beginning of the year		**258,135**	**115,346**
Cash and cash equivalents at end of the year		**346,584**	**258,135**

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

PRICEWATERHOUSECOOPERS

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Free translation of the auditor's report on the consolidated annual accounts originally issued in Spanish. 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.

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 as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement 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 2006 of certain companies detailed in Exhibits I and III to the consolidated annual accounts, in which Técnicas Reunidas, S.A. holds an interest and whose assets and revenues represent, respectively, 2.7% and 3.1% of the corresponding consolidated figures. Those annual accounts were examined by other auditors (see Exhibits I and 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.

For comparative purposes and in accordance with Spanish Corporate Law, the Parent Company's Directors have presented for each item in the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes to the consolidated annual accounts, the corresponding amounts for the previous year as well as the amounts for 2006. Our opinion refers solely to the 2006 consolidated annual accounts. On 20 April 2006 we issued our audit report on the consolidated annual accounts for 2005, in which we expressed an unqualified opinion.

In our opinion, on the basis of our audit and the reports issued by other auditors, the accompanying consolidated annual accounts for 2006 present fairly, in all material respects, the consolidated financial position of Técnicas Reunidas, S.A. and its subsidiaries as at 31 December 2006 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 as adopted by the European Union, applied on a basis consistent with the preceding year.

The accompanying consolidated Directors' Report for 2006 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 coincides with that of the consolidated annual accounts for 2006. 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.

Original in Spanish signed by Javier Lapastora Turpín
Partner

2 April 2007

PricewaterhouseCoopers Auditores, S. L. - R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of euros)

1. General information

TÉCNICAS REUNIDAS, S.A. (the Company) is the Group's parent company, having been incorporated on 6 July 1960 as a limited liability company ("sociedad anónima"). It is entered in the Madrid Mercantile Register, volume 1407, sheet 129, page 5,692 of the companies book. The latest adaptation and amendment of its Articles of Association is registered in volume 4,359, section 8, book 0, sheet 31, page M-72319, entry 103.

The registered office of TECNICAS REUNIDAS, S.A. is located at Calle Arapiles 14, Madrid. Its head office is located at Calle Arapiles 13, Madrid.

The Company's corporate purpose consists of the performance of all classes of engineering services and the construction of industrial plants, ranging from viability or basic and conceptual engineering studies to turnkey engineering, design and construction of large, complex projects, management of supply, equipment and material deliveries and construction of plants and related or associated services, such as technical assistance, construction supervision, project management, technical management, launch and training.

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

These consolidated annual accounts were prepared by the Board of Directors on 28 March 2007. The Directors will submit these consolidated annual accounts to the Annual General Meeting and they are expected to be approved without changes.

At year-end 2006, TÉCNICAS REUNIDAS, S.A. is the parent of a group (the Group) formed by: TÉCNICAS REUNIDAS, S.A., the parent company, its subsidiaries and associates. The Group also has interests in joint ventures and UTEs. Exhibits I, II, III and IV to these notes contain additional information on the entities included in the scope of consolidation.

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

For the purposes of preparing the consolidated annual accounts, a group is understood to exist when the parent company has one or more subsidiaries, i.e. companies controlled directly or indirectly. The principles applied to prepare the Group's consolidated annual accounts and the consolidation scope are described in Note 2.2**.**

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

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

Exhibit III provides the identification details of the joint ventures included in the scope of consolidation under the proportionate method.

The parent company and certain subsidiaries also have interests in UTEs and recognise the relevant assets, liabilities, revenues and expenses on a proportionate basis. Exhibit IV contains details of the Group's UTEs.

In 2006, the company Técnicas Reunidas Oman LLC was included in the consolidation scope, having been incorporated in 2006 to carry out a number of projects in the Middle East.

2. Summary of the main accounting policies

Set out below is a description of the main accounting policies applied to prepare these consolidated annual accounts. The policies have been applied on a uniform basis to all the financial years presented.

2.1. Basis of presentation

The Group's consolidated annual accounts at 31 December 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted for use in the European Union, approved by European Commissions Regulations and in force at 31 December 2006.

The consolidated annual accounts have been prepared on a historical cost basis, with the exception of certain assets that must be carried at fair value under IFRS.

The preparation of consolidated annual accounts under IFRS requires the use of certain critical accounting estimates. The use of IFRS also requires that management exercise judgement when 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.

a) Amendments to standards that came into force in 2006

IAS 19 (Amendment), "Employee benefits": mandatory in financial years commencing as from 1 January 2006. This amendment provides the option of an alternative approach for recognising actuarial gains and losses. Multi-company plans are subject to additional recognition requirements where available information is insufficient to apply the defined-benefit accounting method. New disclosure requirements must also be fulfilled. As the Group has no plans to change the accounting policy adopted to recognise actuarial gains and losses and does not form part of any multi-company plan, the adoption of this amendment will only affect the format and scope of the breakdowns presented in the accounts.

b) Standards, amendments and interpretations that came into effect in 2006 but have no effect on the Group's accounts

The following standards, amendments and interpretations are mandatory in financial years commencing as from 1 January 2006 but are not applicable to the Group's operations:

IAS 21 (amended December 2005), "Net investment in a foreign operation";
IAS 39 (amended April 2005), "Accounting for cash flow hedges of forecast intragroup transactions";
IAS 39 (amended June 2005), "Fair value option";
IAS 39 and IFRS 4 (amended August 2005), "Financial guarantee contracts";
IFRS 1 (Amendment), "First-time adoption of International Financial Reporting Standards" and IFRS 6 (Amendment), "Exploration for and evaluation of mineral resources";
IFRS 6, "Exploration for and Evaluation of Mineral Resources";
IFRIC 4, "Determining whether an arrangement contains a lease";
IFRIC 5; "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds"; and
IFRIC 6, "Liabilities arising from participating in a specific market – Waste electrical and electronic equipment".

c) tandards, amendments and interpretations that have yet to come into force and have not been adopted early by the Group

IFRIC 7, "Applying the restatement approach under IAS 29 – Financial reporting in hyperinflationary economies" (mandatory as from 1 May 2006). IFRIC 7 provides guidelines on how to apply IAS 29 in an accounting period in which the entity identifies hyperinflation in the economy of its functional currency, where the economy was hyperinflationary in the preceding period. As none of the Group companies uses a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations.

IFRIC 8, “Scope of IFRS 2” (mandatory in financial years commencing as from 1 May 2006). IFRIC 8 requires that transactions entailing an issue of equity instruments (in cases in which the identifiable consideration is lower than the fair value of the equity instruments issued) be considered when determining whether or not such transactions come under the scope of IFRS 2. The Group will begin to apply IFRIC 8 as from 1 January 2007, although it is not expected to affect the Group’s accounts.

IFRIC 9, “Reassessment of embedded derivatives” (mandatory in financial years commencing as from 1 June 2006). IFRIC 9 requires entities to assess whether an embedded derivative must be separated from the principal contract and recognised as a derivative when the entity becomes party to the contract. A subsequent reassessment is prohibited, unless changes are made to the terms of the contract that entail a significant modification of the cash flows that would otherwise have been generated by the contract, in which case a reassessment must be performed. As none of the Group companies has amended the terms of its contracts, IFRIC 9 is not relevant to the Group’s operations.

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 effects on the Group’s financial statements.

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, when 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 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 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 provides the identification details of the subsidiaries included in the scope of consolidation under the full consolidation method.

Associates

Associates are all companies over which the Group exercises significant influence but 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 exercise 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 share of losses or gains subsequent to the acquisition of associates is recognised in the income statement and its share of movements in reserves subsequent to the acquisition is recognised in reserves. Cumulative movements subsequent to the acquisition are adjusted against the carrying amount of the investment. Where 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 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 eliminated in proportion to the Group's shareholdings in the associates. 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 provides the identification details of the associates included in the scope of consolidation under the equity method.

Joint ventures

Shareholdings is in combined businesses are consolidated using the proportionate method. The Group combines its share of the assets, liabilities, revenues, expenses and cash flows of the jointly controlled entities on a line-by-line basis, together with the items in its own accounts that are similar in nature.

The Group recognises its share of the profit 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 of the profits or losses 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 an impairment loss.

Exhibit III provides the identification details of the joint ventures included in the scope of consolidation under the proportionate method.

UTEs

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

The proportional part of the balance sheet and income statement items relating to the joint venture is incorporated into the balance sheet and income statement prepared by the participating company based on its interest in the UTE.

Exhibit IV identifies the UTEs whose financial information is recognised by the companies included in 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.

Transactions between different segments are carried out on an arm's length basis. Segment accounting policies are the same as the policies applied to prepare the consolidated annual accounts.

2.4. Foreign currency transactions

Functional and presentation currency

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 or loss are presented as part of the fair value gain or loss.

Group companies

The results and financial situation of all the Group companies (none of which has the currency of a hyperinflationary economy) whose functional currency 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;
(ii) The revenues and expenses presented 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 entities, and loans and other instruments denominated in a foreign currency designated as hedges of those investments, are taken to equity. When 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.

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

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset only when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset may be reliably determined. Other repair and maintenance expenses are charged to 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 based on their estimated useful lives and residual values. The estimated useful lives of each asset category are as follows:

Industrial structures and premises	25	-	50	Years
Plant and machinery	5	-	10	Years
Complex and general installations	12	-	17	Years
Furnishings and office equipment			10	Years
Computer processing equipment			4	Years
Vehicles			7	Years
Other PPE	7	-	10	Years

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

When an asset's carrying amount exceeds its estimated recoverable value, the carrying amount is written down 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 amount and are recognised in the income statement. Own work capitalised is stated at production cost and recognised as income in the income statement.

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. Goodwill relating to acquisitions of subsidiaries is included in intangible assets. 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 amount of goodwill related to the company sold.

Goodwill is assigned to cash generating units (CGUs) in order to test for impairment losses. The recoverable amount of a CGU is the higher of its value in use and its fair value less selling expenses. 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 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. Costs incurred in development projects are recognised as intangible assets where the following requirements are met:

- It is technically possible to complete the production of the intangible asset such that it may be available for use or sale;
- Management intends to complete the intangible asset in question for use or sale;
- The entity has the capacity to use or sell the intangible asset;
- It is possible to demonstrate the manner in which the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset; and
- The outflow of funds attributable to the intangible asset during development may be reliably measured.

Development expenses are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent years. Capitalised costs of a development having a finite useful life are amortised from the start of the product's commercial production on a straight-line basis over the period in which it is expected to generate profits.

Subsidies received for research and development projects are recorded in the income statement using the method applied to research and development expenses recognised in the income statement.

Concessions

Concessions under construction refer to the administrative authorisation granted by a number of municipal councils to build and operate car parks, commercial zones, sports facilities and other assets for the period of time stipulated in each contract. The accounting treatment of these assets is similar to the treatment described in IFRIC 12 (as regards classifying the concession assets as intangible assets), although that standard is not yet mandatory in the European Union. Once the assets covered by the concession become operational, the concession receipts will be recognised as ordinary revenues, operating expenses will be recognised as an expense for the year and straight-line amortisation will be charged on the intangible assets over the term of the concession. Project returns will be reviewed at each account close to assess whether or not there is any indication of impairment of assets that are not recoverable through the revenues generated.

2.7. Asset impairment losses

Assets with indefinite useful lives and goodwill are not subject to depreciation/amortisation and are tested annually for impairment. The Group did not record any intangible assets with an indefinite useful life in the balance sheet. The Group reviews the assets subject to depreciation at each account close to verify whether or not there are any events or changes in circumstances that indicate that the carrying amount may not be recoverable.

An impairment loss is recognised when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value of an asset, less selling costs, and value in use. Impairment losses assigned to goodwill are not reversed. For the purposes of evaluating impairment losses, assets are grouped into CGUs, 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 an impairment test at the CGU level is described in Note 7.

2.8. Financial assets

The Group classifies investments into the following categories: financial assets at fair value through profit or loss, loans and accounts receivable, held-to-maturity investments 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 2006 the Group does not record 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 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 rewards of ownership.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and financial assets designated as at fair value through profit or loss when initially recognised. A financial asset is classified in this category if it is mainly acquired for sale in the short term or when the asset is so designated by management. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets in this category are classified as current assets if they are held for trading or are expected to be realised within 12 months as from the balance sheet date. These financial assets are subsequently recorded at their fair value. Realised and unrealised gains and losses resulting from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the year in which they arise.

Loans and other receivables

Loans and other receivables are non-derivative financial assets subject to fixed or determinable payments that 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 after more than 12 months from the balance sheet date, which are classified as non-current assets. This category includes deposits and guarantees furnished to third parties. Loans and accounts receivable are included in Trade and other receivables in the balance sheet. Loans and receivables are carried at amortised cost using the effective interest method.

Available-for-sale financial assets

This classification relates to non-derivative financial assets that are designated as available for sale or are not included in any other category. They are included in non-current assets unless management intends to dispose of the investment within 12 months as from the balance sheet date. These financial assets are subsequently recorded at their fair value. Unrealised gains and losses resulting from changes in the fair value of non-monetary instruments classified as available for sale are recognised in equity. When instruments classified as available for sale are sold or become 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 listed investments are based on current bid prices. If the market for a financial asset is not active (as in the case of unlisted securities), the Group establishes fair value by using measurement techniques that include the method based on recent transactions between duly informed interested parties relating to other instruments which are substantially identical, and the discounted cash flow method. In the event that neither of the methods mentioned above may be used to estimate fair value, the investments are stated at acquisition cost less any impairment losses.

At each 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, impairment is determined on the basis of the existence of a significant or protracted decline bringing the fair value of the instruments to below their cost. Should impairment of available-for-sale financial assets be identified, the cumulative loss in the amount of the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in the income statement, is removed 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 include the cost of developing investment property held for sale and also the cost of certain materials yet to be allocated to projects. The costs incurred to submit bids are included in inventories when it is likely or certain that the contract will be secured or when it is known that the costs will be reimbursed or included in the revenues originating from the contract. Inventories are measured at the lower of cost and net realisable value. Cost is calculated as the acquisition price or direct production cost. The cost of inventories includes design costs, raw materials, direct labour, other direct costs and manufacturing overheads (based on the ordinary operating capacity), excluding interest expense. The net realisable value is the estimated selling price in the ordinary course of business, less applicable variable costs of sales.

2.10. Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less the provision for impairment losses. A provision is recorded for impairment losses on trade receivables where there is objective evidence that the Group will be unable to collect all amounts receivable on the original terms agreed. Where the debtor is in serious financial difficulty, the probability of bankruptcy or financial reorganisation, together with default or delay in payment, are deemed to be indicators of impairment of the receivable. The amount of the provision is the difference between the carrying amount of the asset and the present value of forecast 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 entirely by ordinary shares carried in 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 revenues obtained.

Where a Group company acquires shares in the parent company (treasury shares), the purchase consideration, including any incremental cost directly attributable (net of income tax), is deducted from equity attributable to the parent company's equity holders, until the treasury shares are redeemed, reissued or sold. When treasury shares are sold or subsequently reissued, any amount received, net of directly attributable incremental transaction costs and income tax effects, is included in equity attributable to the parent company's equity holders.

2.13. Government grants

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

Government grants obtained to cover costs are deferred and recognised in the income statement over the necessary period to match them to the costs they are intended to cover.

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

2.14. Suppliers

Suppliers are initially recognised at fair value and subsequently remeasured at amortised cost using the effective interest method.

2.15. Borrowings

Borrowings are recognised initially at fair value, net of the direct transaction costs. Borrowings are subsequently measured at amortised cost. Any differences between the funds obtained (net of the necessary costs incurred in their obtainment) and the repayment value are recognised in the income statement over the life of the debt using the effective interest method.

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.

Interest and other expenses incurred to obtain borrowings are taken to the income statement for the year on an accrual basis.

2.16. Deferred taxes

Deferred taxes are calculated using the liability method, based on temporary differences between the tax bases of assets and liabilities and their carrying amounts 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 transaction date has no effect on the reported or taxable profit or loss, the deferred taxes are not recognised. Deferred tax is determined using tax rates approved or about to be approved at the balance sheet date that are expected to be applied when the corresponding deferred tax asset or deferred tax liability is realised or settled.

Deferred tax assets are recognised insofar as future taxable profits will probably arise against which to offset the temporary differences.

2.17. Employee benefits

Pension and retirement obligations

Some Group companies record obligations with employees in the form of defined contribution pension plans and other defined benefit retirement obligations.

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. 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 of service or remuneration.

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 unrecognised actuarial gains and losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the obligation is determined by discounting future cash flows estimated at interest rates on applied to government bonds denominated in the currency in which the benefits will be paid with maturities similar to those of the relevant obligations.

Actuarial gains and losses that arise from adjustments applied based on experience and changes in the actuarial assumptions are charged and credited, as appropriate, to the income statement 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 specified time period (vesting period). In this case, past service costs are amortised on a straight-line basis over the vesting period.

Defined contributions made to plans are recognised as employee benefits when they accrue and are recorded as an expense for the year.

Other non-current remuneration obligations

Some Group companies record an implicit obligation to provide defined benefits that are treated as non-current remuneration. The right to receive this type of benefit is normally subject to the employee remaining at the company for a certain number of years. The forecast costs of these benefits accrue over the employment period of the employees using an accounting method similar to the one applied to defined benefit pension plans. Actuarial gains and losses that arise from adjustments applied based on experience and on changes in actuarial assumptions are charged and credited to the income statement for each year, as appropriate. 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 will not to be paid within 12 months of the balance sheet date are discounted to their present value.

2.18. 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 must be applied to settle the obligation and the amount may be reliably estimated. Provisions for future operating losses are not recognised.

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

2.19. Revenue recognition

Ordinary revenues include a fair value of purchase considerations received or receivable for the sale of goods and services in the ordinary course of the Group's business. Ordinary revenue is recognised net of value added tax, returns, rebates and discounts, and after eliminating intra-Group sales. The Group recognises revenues when the amount may be reliably calculated, the future economic benefits are likely to flow to the company and the specific conditions applicable to each of the Group's activities are fulfilled, as described below. The amount of revenues may not be reliably calculated until all contingencies affecting sales are resolved. The Group's estimates are based on historical data, taking into account the type of customer and transaction, as well as the specific terms of each contract.

Administration contracts

Sales of services refer to administration contracts and are recognised in the financial year in which the services are rendered based on a percentage-of-completion basis with respect to the service actually 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.

Engineering contracts

When the results of a contract may not be reliably estimated, the relevant revenues are recognised only up to the limit of the costs incurred under the contract that are likely to be recovered.

Where the results of a contract may be reliably estimated and it is likely to be profitable, revenues are recognised over the term of the contract. The revenue recognition method for turnkey engineering contracts varies based on the estimated results. When the costs are likely to exceed the total revenues obtained, the expected loss is immediately recognised as an expense.

The Group uses the percentage-of-completion method to calculate the adequate amount to be recognised in a given period. Percentage-of-completion is calculated by reference to the contractual costs incurred at the balance sheet date, expressed as a percentage of the total estimated cost of each contract. Costs incurred during the year with respect to future contractual activities are excluded from the contractual costs used to determine percentage of completion.

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

The Group presents as a receivable the gross amount owed by customers for all work performed under current contracts for which the costs incurred plus recognised profits (less recognised losses) exceed the amount of interim billings. Interim billings not yet paid by customers and withholdings are included in Trade and other receivables.

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

Costs incurred to make bids for construction contracts in Spain and abroad are expensed in the income statement when incurred, where it is not likely or certain at that date that the contract will be awarded to the Group. The cost of submitting bids is included in the cost of the contract when it is likely or certain 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.

2.20. Derivative financial instruments and hedge transactions

Derivative financial instruments are initially recognised at fair value at contract inception and are subsequently remeasured at their fair value. The recognition of gains or losses arising from changes in the fair value in each period depends on whether the derivative is designated as a hedging instrument and, if so, on the nature of the item hedged. The Group designates certain derivatives as hedges of a specific risk associated with a highly probable forecast transaction (cash flow hedge).

Derivatives embedded in other non-financial instruments are recognised 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 10 includes information on the fair value of the derivatives employed in hedge transactions. The consolidated statement of changes in equity shows movements in the hedging reserve in equity.

Derivatives not qualifying for hedge accounting

In the case of financial derivatives not designated as hedging instruments, or which do not qualify for hedge accounting, fluctuations in their fair value at each measurement date are recognised as revenue or an expense in the income statement.

Cash flow hedges

At hedge inception, the Group documents the relationship between hedging instruments and the hedged items, in addition to its risk management objective and the strategy to be employed in each hedge transaction. The Group also documents its evaluation, both at hedge inception on an ongoing basis, of whether or not the derivatives used in the hedge transaction are highly effective when offsetting changes in cash flows from the hedged assets.

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognised in equity in a specific reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are transferred to the income statement in the year in which the hedged item affects results. 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 hedge transaction ceases to comply with the requirements for the application of hedge accounting, the gains or losses accumulated in equity to that date will remain in equity and will be taken to the income statement when the forecast transaction is finally recognised in the income statement. However, if the transaction is no longer likely to take place, the gains or losses accumulated in equity are immediately taken to the income statement.

Fair value hedges

Changes in the fair value of designated derivatives that qualify as fair value hedges are recognised in the income statement, together with any change in the fair value of the hedged asset or liability.

2.21. Fair value

The fair value is the amount at which a financial instrument is exchanged between duly informed interested parties in an arm’s length transaction.

The fair value of financial instruments listed on active markets is based on year-end market prices.

The fair value of financial instruments that are not listed on an active market is calculated using valuation methods. The Group mainly uses valuation methods based on information from recent transactions carried out at arm's length involving similar instruments and the discounting of forecast cash flows.

2.22. Leases

Leases on property, plant and equipment in which the Group is the lessee and obtains substantially all the risks and rewards of ownership of the assets are classed as finance leases. Finance leases are recognised at the start of the contract at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The payment obligation derived from the lease, net of finance charges, is recognised in non-current payables, except for the portion falling due within 12 months. The interest element of the finance charges is taken to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. PPE acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Where the Group is the lessee, payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight- line basis over the period of the lease.

2.23. Dividend payment

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.

2.24. 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.

3. Financial risk management

3.1. Financial risk factors

The Group's activities are exposed to some of the habitual financial risks: market risk (including foreign exchange, fair value interest rate and price risks), credit risk, liquidity risk and cash flow and fair value interest rate risks. 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 hedges 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 foreign exchange risk.

a) Market risk

a.1) Foreign exchange risk

The Group operates in the international arena and therefore it is exposed to foreign exchange risks on transactions denominated in foreign currency, particularly the US dollar and, to a much lesser extent, currencies tied to the USD. There are residual minor risks concerning suppliers in Japanese yen or sterling, in particular. Foreign exchange risk derives from future transactions, recognised assets and liabilities and net investments in foreign operations.

To control the Foreign exchange risk that derives from future transactions and recognised assets and liabilities, Group companies use forward contracts, in accordance with the hedging policy in place, negotiated through the Group's Corporate Treasury Department. Foreign exchange risk arises when the future transactions and recognised assets and liabilities are denominated in a currency other than the Company's functional currency. Group Treasury is responsible for managing the net position in each foreign currency external foreign exchange forward contracts.

For the purposes of disclosing financial information, each subsidiary designates contracts with the Treasury Department as fair value or cash flow hedges, as appropriate. In turn, at the Group level, external foreign currency contracts are designated as foreign exchange hedges of certain assets, liabilities or future transactions.

The Group's risk management policy consists of hedging the majority of highly certain forecast transactions (mainly relating to exports) in each of the main currencies and for all the forecast project months. In each new project covered by a foreign exchange hedge, the percentage of the risk to be hedged changes with respect to projected sales in each of the main currencies. These hedges are classified as highly probable forecast transactions for hedge accounting purposes.

a.2) Price risk

The Group is not exposed to price risk with respect to equity instruments as 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 effectively passed on in 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. An additional mechanism used by the Group to mitigate this risk takes the form of contracting models that allow a part of the price to be applied to cover possible cost departures.

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. The Group's customers are of recognised national and international solvency. Transactions involving derivatives and spot transactions are only carried out with financial institutions that have a high credit rating. The Group has policies in place to limit the amount of risk held with respect to any single financial institution.

c) Liquidity risk

The prudent management of liquidity risk entails maintaining sufficient cash and negotiable instruments, available financing in the form of adequate credit facilities and the capacity to liquidate market positions. Given the dynamic nature of the underlying businesses, the Group's Treasury Department seeks to ensure flexible financing in the form of available credit facilities. A number of minor credit lines are obtained to finance working capital for specific projects, although in view of the liquidity position and the slightly positive or neutral cash flow of most of the Group's projects, liquidity risk is estimated to be insignificant.

d) Cash flow and fair value interest rate risk

As the Group does not hold any significant non-current interest-bearing assets or borrowings, 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 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. Estimates and assumptions are based, among other aspects, on past experience or other events deemed reasonable in view of the facts and circumstances analysed at the balance sheet date, the result of which forms the basis for estimating the carrying amounts of assets and liabilities that cannot be immediately calculated in any other manner. Actual results may differ from estimated results.

Estimates and judgements are assessed continuously and are based on historical 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 returns is material. The main estimates applied by Group management are as follows:

Goodwill impairment test

The Group tests goodwill annually for impairment, in accordance with the accounting policy described in Note 2.7. The amounts recoverable by the cash generating units have been determined based on calculations of value in use. These calculations require the use of estimates.

Income tax and deferred tax assets

The calculation of income tax requires the interpretation of tax legislation applicable to the Group companies. There are also several factors related mainly, but not exclusively, to changes in tax laws and changes in the interpretation of tax laws already in force that require the use of estimates by Group management.

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

Useful lives of PPE and intangible assets

Group management determines the estimated useful lives and resulting depreciation and amortisation charges for PPE and intangible assets. The useful lives of non-current assets are estimated based on the period over which the asset will generate profits. At each account close, the Group reviews the useful lives of the assets. When changes are identified, the necessary adjustments are made on a prospective basis.

Employee benefits

The present value of employee benefit obligations depends on a number of factors that are determined using actuarial assumptions. The assumptions made to determine the cost 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. Additional information is disclosed in Note 22.
Any change in these assumptions will have an impact on the amount of the expense and liability in respect of obligations relating to employees.

Receivables and financial assets

The Group makes estimates relating to the collectability of trade receivables for projects affected by disputes 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 return 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 the amount of the obligation may be reliably estimated. Significant estimates are required to fulfil the requirements of accounting legislation. 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

The revenue recognition method applied by the Group is based on the percentage of completion. Percentage of completion is calculated as costs incurred under a contract as a percentage of the total estimated costs to be incurred to perform the contract. This revenue recognition method is applied only when the result of the contract may be reliably estimated and it is likely that the contract will generate profits. If the result of the contract may not be reliably estimated, revenues are recognised to the extent that costs are recovered. When it is likely that the costs of a contract will exceed the revenues, the loss is immediately recognised as an expense. When applying the percentage-of-completion method, the Group makes significant estimates relating to the total costs necessary to perform the contract. These estimates are reviewed and assessed regularly in order to verify whether or not they generated a loss and if it is possible to continue to apply the percentage-of-completion method, or to re-estimate the expected margin from the project. During the project, the Group also estimates probable contingencies related to the increase in the total estimated cost and adjusts revenue recognition accordingly.

Fair value of unlisted financial instruments

The Group calculates the fair value of financial instruments (financial assets and liabilities) that are not traded on an active market through estimates made using a number of methods and assumptions that are based mainly on market conditions at each balance sheet date. The Group has used discounted cash flow analyses for some available-for-sale financial assets not traded on active markets, or other objective evidence of the fair value of the instrument concerned, such as recent similar transactions or the value of purchase or sale options in force at the balance sheet date.

Warranty claims

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

5. Segment reporting

	Oil and Gas		Energy		Other		Unallocated		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Profit by segment										
Ordinary revenues	927,304	486,629	200,888	123,592	106,336	74,893	-	-	**1,234,528**	**685,114**
Operating profit	73,056	41,162	11,413	4,991	7,722	7,925	(32,298)	(25,495)	**59,893**	**28,583**
Profit on divestment (Note 34)									**13,034**	**-**
Net financial result (Note 28)									**5,195**	**6,837**
Share in profit/loss of associates	407	1,159	125	79	(68)	(66)	-	-	**464**	**1,172**
Profit before taxes									**78,586**	**36,592**
Income tax									**6,968**	**(5,030)**
Profit for the year									**71,618**	**41,622**
Assets and liabilities by segment										
Assets	818,822	431,074	64,086	140,138	120,128	75,854	171,399	198,728	**1,174,435**	**845,794**
Investments in associates	2,936	5,783	1,905	1,900	1,203	3,823	-	-	**6,044**	**11,506**
Total assets	821,758	436,857	65,991	142,038	121,331	79,677	171,399	198,728	**1,180,479**	**857,300**
Liabilities	700,635	314,901	39,862	108,130	104,325	23,175	173,480	264,486	**1.018.302**	**710,692**
Investments in non-current assets (Notes 6 and 7)	1,481	499	-	-	6,709	-	9,360	8,925	**17,550**	**9,424**
Other information by segment										
Depreciation of property, plant and equipment (Note 6)	-	-	-	-	-	-	1,383	1,982	**1,383**	**1,982**
Amortisation of intangible assets (Note 7)	-	-	-	-	-	-	2.555	730	**2,555**	**730**
Impairment of trade receivables (Note 11)	-	-	-	-	-	-	1,000	252	**1,000**	**252**

Primary reporting format: business segments

At 31 December 2006, the Group is organized into the following business segments: Oil and Gas, Energy and Other. Although the Group's core business is formed by engineering and construction services, the above-mentioned segment reporting format is presented on the understanding that the risks and rewards of its services and the specialisation required to complete the projects, among other matters, make the business segment distinction necessary in order to provide more insight into the organisation.

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

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

The segment Other encompasses the activities of the business area Infrastructures and Industries and, as regards assets, the activities of the Finance business, none of which may be identified as a separate reporting segment.
The unallocated operating profit includes the Group's structural costs.

No sales were made between the Group's business segments in the years reported.

Secondary reporting format: geographical segments
The Group's business segments operate mainly in Spain, Middle East, America, Asia and the Mediterranean, although they are managed on a worldwide basis. The following should be noted: a) the geographical area America relates mainly to operations in Chile and Mexico; b) the Asia area encompasses operations in China and Vietnam; and c) the Mediterranean area basically includes operations in Morocco, Algeria, Egypt and Turkey, among other countries.

Sales	**2006**	**2005**
Spain	397,151	277,174
Middle East	478,969	182,734
America	177,480	79,054
Asia	134,281	28,602
Mediterranean	46,647	117,550
	1,234,528	**685,114**

Sales are assigned on the basis of the country in which the customer is located.

	Assets		Non-current investments	
	2006	**2005**	**2006**	**2005**
Spain	345,020	276,550	6,709	-
Middle East	431,396	147,425	1,156	470
America	115,861	65,517	325	29
Asia	86,389	93,593	-	-
Mediterranean	74,670	61,932	-	-
Total	**1,053,336**	**645,017**	**8,190**	**499**
Associates	6,044	11,506	-	-
Not assigned	121,099	200,777	9,360	8,925
	1,180,479	**857,300**	**17,550**	**9,424**

All the assets are assigned on the basis of their location.

6. Property, plant and equipment

Set out below is an analysis of Property, plant and equipment showing movements during the year:

Cost	Land and buildings	Plant and machinery	Furniture and equipment	Assets under construc.	Other assets	Total
Balance at 1 January 2005	**991**	**6,202**	**11,853**	**2,538**	**2,984**	**24,568**
Increases	-	3,260	4,643	-	510	8,413
Decreases	(18)	(424)	-	-	(270)	(712)
Other movements	-	-	-	-	-	-
Balance at 31 December 2005	**973**	**9.038**	**16,496**	**2,538**	**3.224**	**32,269**
Increases	22	2,400	2,144	-	105	4,671
Decreases	-	-	-	-	-	-
Other movements	-	-	-	-	-	-
Balance at 31 December 2006	**995**	**11,438**	**18,640**	**2,538**	**3,329**	**36,940**

Accumulated depreciation	Land and buildings	Plant and machinery	Furniture and equipment	Assets under construc.	Other assets	Total
Balance at 1 January 2005	**387**	**3,373**	**8,788**	**-**	**1,812**	**14,360**
Increases	13	472	1,151	-	346	1,982
Decreases	(3)	(117)	-	-	(237)	(357)
Other movements	-	-	-	-	-	-
Balance at 31 December 2005	**397**	**3,728**	**9,939**	**-**	**1,921**	**15.985**
Increases	11	728	591	-	53	1,383
Decreases	-	-	-	-	-	-
Other movements	-	-	-	-	-	-
Balance at 31 December 2006	**408**	**4,456**	**10,530**	**-**	**1,974**	**17,368**
Net balance at 1 January 2005	**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**
Net balance at 31 December 2006	**587**	**6,982**	**8,110**	**2,538**	**1,355**	**19,572**

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

The balance in Assets under construction relates to the engineering costs arising from the design and construction of a battery and fluorescent tube recycling plant by a group company in association with the municipal council 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 forecast flows from the plant.

The item Furniture and equipment includes the following amounts in respect of finance leases under which the Group is the lessee:

	2006	2005
Capitalised finance lease cost	2,878	2,251
Accumulated depreciation	(1,245)	(957)
Net carrying amount	1,633	1,294

Finance lease agreements entered into by the company mainly relate to the acquisition of computer equipment.

At 31 December 2006, the Group owns investments in PPE located abroad for a cost of K€3,768 (2005: K€2,947) and accumulated depreciation of K€1,400 (2005: K€1,500).

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

7. Goodwill and other intangible assets

Set out below is an analysis of Intangible assets showing movements during the year:

Cost	Computer software	Developm. expenses	Assets under construc.	Other fixed assets	Subtotal	Goodwill	Total
Balance at 1 January 2005	**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**
Increases	3,462	-	9,417	-	12,879	-	12,879
Decreases	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-
Balance at 31 December 2006	**8,391**	**8,551**	**10,293**	**300**	**27,535**	**1,242**	**28,777**

Accumulated amortisation	Computer software	Developm. expenses	Assets under construc.	Other fixed assets	Subtotal	Goodwill	Total
Balance at 1 January 2005	**2,322**	**7,915**	**-**	**213**	**10,450**	**-**	**10,450**
Increases	536	194	-	-	730	-	730
Decreases	(16)	-	-	-	(16)	-	(16)
Other movements	-	-	-	-	-	-	-
Balance at 31 December 2005	**2,842**	**8,109**	**-**	**213**	**11,164**	**-**	**11,164**
Increases	2,333	198	-	24	2,555	-	2,555
Decreases	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-
Balance at 31 December 2006	**5,175**	**8,307**	**-**	**237**	**13,719**	**-**	**13,719**
Net balance at 1 January 2005	**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**
Net balance at 31 December 2006	**3,216**	**244**	**10,293**	**63**	**13,816**	**1,242**	**15,058**

Capitalised development expenses relate entirely to the cost of projects relating to the zinc technology that has been used to perform Group contracts or has been sold to customers. The capitalised amount refers to the Zincex and New Zinc Electrolysis projects, the carrying amount of which amounted to K€185 and K€79, respectively, at 31 December 2006.

During the year, the cost of research and development charged to the income statement totalled K€808, as compared with K€642 in 2005.

The item Assets under construction relates to the construction cost of certain assets (car parks, commercial zones, sports facilities and other) for which the Group has obtained the operating concession for a specified period. At the end of the concession period, the asset will revert in full to the granting authority. The Group amortises the capitalised asset during the term of the concession.

The item Computer software records the ownership and user rights for computer software acquired from third parties. The balance in Computer software does not include amounts linked to the in-house development of computer applications.

Goodwill impairment testing
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.

The cash generating unit identified pertains to the business segment referred to as Other in Note 5 and its operations are located in Spain.

At 1 January 2005 an impairment test was performed on goodwill and no loss was recognised.

In addition, impairment tests were performed at 31 December 2006 and 31 December 2005 and no impairment losses were recognised.

The recoverable amount of the CGU has been determined on the basis of value-in-use calculations. Cash flow projections based on financial budgets approved by Management covering a five-year period and applying a 6% growth rate have been used. This growth rate reflects growth forecasts based on current plans and the market situation. The final value of the CGU has been determined using a constant growth rate.
A discount rate of 9.6% has been applied (2005: 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 analyses have been performed on the key growth and discount rate assumptions used. Assuming no growth of any kind, the cash-generating unit would not undergo any impairment at a 12% discount rate.

8. Investments in associates

	2006	2005
Opening balance	11,506	10,422
Additions	476	101
Disposals	(6,402)	-
Share in profits	464	983
Closing balance	6,044	11,506

Investments in associates at 31 December 2006 include goodwill totalling K€900 (2005: K€411). 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.

The date of presentation of the financial statements of all the associates coincides with the presentation date of the parent company's financial statements.

The Group's shareholdings in its main associates, none of which are listed on a stock market, are as follows:

Name	Country of origin	Assets	Liabilities	% shareholding
2005				
Empresarios Agrupados, A.I.E.	Spain	4,278	3,528	42.48%
Empresarios Agrupados Internacional, S.A.	Spain	7,499	3,879	42.48%
Explotaciones Varias, S.A.	Spain	2,865	618	50.00%
Ibérica del Espacio, S.A.	Spain	2,936	1,206	20.71%
Productora de Diesel ,S.A.	Chile	95,228	74,121	27.50%
Green Fuel Corporación, S.A.	Spain	621	84	20.93%
		113,427	83,436	
2006				
Empresarios Agrupados, A.I.E.	Spain	5,476	4,726	42.48%
Empresarios Agrupados Internacional, S.A.	Spain	8,252	4,356	42.48%
Layar Castilla, S.A.	Spain	3,245	359	25.39%
Ibérica del Espacio, S.A.	Spain	3,992	2,476	20.71%
Productora de Diesel ,S.A.	Chile	79,565	72,038	27.50%
Green Fuel Corporación, S.A.	Spain	1,235	665	20.93%
		101,765	84,620	

Name	Country of origin	Revenues	Profit /loss	% shareholding
2005				
Empresarios Agrupados, A.I.E.	Spain	14,605	-	42.48%
Empresarios Agrupados Internacional, S.A.	Spain	10,100	227	42.48%
Explotaciones Varias, S.A.	Spain	314	(165)	50.00%
Ibérica del Espacio, S.A.	Spain	3,016	76	20.71%
Productora de Diesel ,S.A.	Chile	3,351	2,531	27.50%
Green Fuel Corporación, S.A.	Spain	133	65	20.93%
		31,519	2,734	

Name	Country of origin	Revenues	Profit /loss	% shareholding
2006				
Empresarios Agrupados, A.I.E.	Spain	10,866	-	42.48%
Empresarios Agrupados Internacional, S.A.	Spain	13,810	293	42.48%
Layar Castilla, S.A.	Spain	577	(104)	25.39%
Ibérica del Espacio, S.A.	Spain	4,300	(213)	20.71%
Productora de Diesel ,S.A.	Chile	2,082	1,482	27.50%
Green Fuel Corporación, S.A.	Spain	471	24	20.93%
		32,106	1,482	

9. Available-for-sale financial assets

Set out below are movements in this caption:

At 1 January 2005	**314**
Additions	615
Disposals	(242)
At 31 December 2005	**687**
Additions	1,426
Disposals	-
At 31 December 2006	**2,113**
Less: Non-current portion	2,113
Current portion	-

The balance in available-for-sale financial assets consists mainly of the investment of K€1,400 in Energía Concon, S.A., acquired by the Group in June 2005, additional contributions of K€894 having been made in 2006. The investment is carried at fair value as the transaction involved independent parties and was completed close to the balance sheet date. The rest of the balance relates to minor investments in unlisted companies in which the Group does not have significant influence. Due to the fact that these are residual investments in companies that are not significant to the Group and as valuation methods cannot be applied, the investments are presented at acquisition cost.

In 2006 and 2005 no provisions were made for impairment losses affecting available-for-sale financial assets.

10. Derivative financial instruments

The balances relating to derivative financial instruments at year-end 2006 and 2005 are as follows:

	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange forwards – cash flow hedges	10,514	1.371	237	12.011
Foreign exchange forwards – held for trading	-	74	-	183
Total	**10,514**	**1,445**	**237**	**12,194**
Less non-current portion:				
Foreign exchange forwards – cash flow hedges	**426**	**-**	**187**	**726**
Current portion	**10,088**	**1,445**	**50**	**11,468**

Set out below is a breakdown of maturity dates for the contracts in force at 31 December 2006 and 2005 are as follows:

	2006	2007	2008	2009	Total fair value
Total 2006 assets	-	10,088	426	-	**10,514**
Total 2006 liabilities	-	1.445	-	-	**1,445**
Total 2005 assets	50	182	5	-	**237**
Total 2005 liabilities	11,468	726	-	-	**12,194**

The notional principal of foreign exchange forward contracts, mainly hedging the sale of US dollars against the purchase of euros (net of US dollar purchases against euro sales) outstanding at 31 December 2006 totalled was KUSD 414,759 (2005: KUSD 234,980).

Gains and losses in equity due to foreign exchange forward contracts at 31 December 2006 totalled K€9,106 (2005: K€(10,552)) and are recognised in the income statement in the period or periods in which the hedged transaction affects the income statement.

11. Trade and other receivables

Set out below is an analysis of this caption at year-end 2006 and 2005:

	2006	2005
Trade receivables	643,726	423,507
Less: Provision for impairment of receivables	(4.087)	(4.003)
Trade receivables – Net	639,639	419,504
Other accounts receivable	5,513	6,438
Prepayments	38,802	33,542
Other items	34,480	13,524
Total	**718,434**	**473,008**

The Trade receivables account includes K€365,624 (2005: K€281,475) relating to work executed pending certification, which is calculated as described in Note 2.19.

There is no significant effect on the fair values of trade and other receivables. Nominal values are considered to approximate fair values.

The Group has recognised a loss of K€1,000 due to the impairment of its trade receivables during the year ended 31 December 2006. Movements in the provision for impairment of trade receivables are as follows:

	2006	2005
Opening balance	**4,003**	**10,880**
Appropriations for the year	1,000	252
Applications	(916)	(7,129)
Closing balance	**4,087**	**4,003**

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

	2006	2005
Euro	210,256	103,606
USD	50,575	25,635
Other currencies	17,271	12,791
Subtotal	278,102	142,032
Work executed pending certification	365,624	281,475
Total	**643,726**	**423,507**

The total amount of the costs incurred and profits recognised (less recognised losses) for all current contracts at the balance sheet date was K€3,005,710 (2005: K€2,145,981) and K€302,940 (2005: K€184,565), respectively.

12. Inventories

A breakdown of inventory balances is as follows:

	2006	2005
Current construction projects	5,568	1,097
Bid presentation costs	2,394	-
Materials	9,889	4,779
	17,851	**5,876**

The item Current construction projects records the cost of developing a number of assets (mainly car parks), as described in Note 7, in respect of the portions held for sale. Given their characteristics, a significant portion of these assets have a realisation period of over 12 months.

13. Receivables and other assets

	2006	2005
Non-current receivables and other assets		
Loans to employees	529	572
Deposits and guarantees	1,502	1,455
	2,031	2,027
Current receivables and other assets		
Loans to associates	880	748
Interest	138	126
Short-term guarantee deposits	342	309
Short-term deposits	85	65
Accrual accounts	706	1,621
Other	187	651
	2,338	3,520

Accrual accounts relate mainly to prepaid expenses (insurance premiums, licences, maintenance costs and other).

14. Financial assets at fair value through profit or loss

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

	2006	2005
Opening balance	57,266	54,337
Net additions and (disposals)	(35,710)	2,929
Closing balance	21,556	57,266

Listed securities:		
- Investments in short-term fixed income securities	-	1,779
- Investments in short-term equity securities	21,556	55,487
	21,556	57,266

All financial assets are considered to be held for trading.

Other financial assets at fair value through profit and loss are presented in the section on operating activities as part of changes in working capital in the consolidated cash flow statement.

Changes in the fair value of other financial assets at fair value through profit and loss are recorded under net financial results 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 2006 has been determined by reference to the year-end market price.

15. Cash and cash equivalents

	2006	2005
Cash and banks	225,576	161,018
Short-term bank deposits and other cash equivalents	121,008	97,117
	346,584	258,135

This caption includes cash (cash in hand and demand bank deposits) and cash equivalents (short-term highly-liquid investments easily convertible into specific amounts of cash within a maximum of three months, the value of which is not subject to significant risks).

The effective interest rate on short-term bank deposits was between 3.10% (euro deposits) and 4.90% (US-dollar deposits) (2005: 2.13% and 4.18%, respectively) and the average maturity period was 10 days.

Of the total balance of Cash and cash equivalents at 31 December 2006, K€152,947 relates to balances recorded by the joint ventures and UTEs consolidated, as indicated in Exhibits III and IV, respectively.

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

16. Share capital

	No. of shares	Ordinary shares	Share premium account	Total
Balance at 1 January 2005	931,600	5,590	8,691	14,281
Other movements	-	-	-	-
Balance at 31 December 2005	931,600	5,590	8,691	14,281
Other movements	54,964,400	-	-	-
Balance at 31 December 2006	55,896,000	5,590	8,691	14,281

On 10 May 2006, the shareholders of Técnicas Reunidas, S.A. resolved to reduce the par value of the shares from six euros per share to 0.10 euros per share and to simultaneously increase the number of outstanding shares from 931,600 shares to 55,896,000 shares by splitting each old share valued at six euros into 60 new shares valued at 0.10 euros each, without altering total share capital. The new shares are ordinary shares and carry the same rights as the old shares.

Following this change, the total number of authorised ordinary shares is 55,896,000 (2005: 931,600 shares), each having a par value of 0.10 euros (2005: six euros per share). All issued shares are fully paid up. There are no restrictions on the transfer of the shares.

During 2006, the Spanish National Securities Market Commission (CNMV) authorised the public offering of a part of the shares in Técnicas Reunidas, S.A. and also admitted the shares to listing in the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges, also including the shares in the Continuous Market, commencing on 21 June 2006. The following table shows the impact on the shareholder structure at 31 December 2006:

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

	2006		2005	
Shareholder	**No. of shares**	**% interest**	**No. of shares**	**% interest**
Aragonesas Promoción de Obras y Construcciones, S.L.	2,848,383	5.10%	178,187	19.13%
Araltec, S.L.	21,795,284	38.99%	450,475	48.35%
Banco Industrial de Bilbao	2,969,242	5.31%	124,104	13.32%
Bilbao Vizcaya Holding	2,690,033	4.81%	112,434	12.07%
BBVA Elcano Empresarial, SCR, S.A.	2,124,048	3.80%	-	-
BBVA Elcano Empresarial II, SCR, S.A.	2,124,048	3.80%	-	-
Rest of shareholders (including free float in 2006)	21,344,962	38.19%	66,400	7.13%
TOTAL	**55,896,000**	**100.00%**	**931,600**	**100.00%**

17. Other reserves

The total balance of K€1,137 relates to the legal reserve. This reserve, which is fully paid, may not be distributed to shareholders and may only be used to offset losses should no other sufficient reserves be available. It may also be used to increase share capital under certain situations.

18. Cumulative translation difference

	Total
1 January 2005	**(896)**
Translation differences:	
– Group and associates	351
31 December 2005	**(545)**
Translation differences:	
– Group and associates	959
31 December 2006	**414**

A breakdown of the cumulative translation difference by company / subgroup at year-end 2006 and 2005 is as follows:

	2006	2005
Company or subgroup		
Damietta LNG Construction	(486)	(539)
Técnicas Reunidas Metalúrgicas, S.A.	118	160
Técnicas Reunidas Gulf Ltd.	139	(192)
Técnicas Reunidas Oman LLC	705	-
Tecnicas Reunidas Engineering LLC	(129)	-
Other	67	26
Total	**414**	**(545)**

19. Retained earnings and minority interests

A breakdown of retained earnings and minority interests at 31 December 2006 and 2005 is as follows:

Company	2006	2005
Técnicas Reunidas, S. A.	90,591	107,536
Técnicas Reunidas Internacional, S. A.	3,664	688
Técnicas Reunidas Ecología, S. A.	1,872	372
Técnicas Reunidas Gulf L.T.D.	(14,080)	82
Grupo Layar	8,927	2,889
Initec Plantas Industriales, S.A.	51,030	31,996
Initec Infraestructuras, S.A.	4,476	4,682
Initec Chile, S.A.	1,558	(54)
Other companies	3,351	3,965
Retained earnings	**151,389**	**152,156**

There are no restrictions on the availability of the retained earnings. The only restrictions affect the legal reserve, as described in Note 17.

Each consolidated company's contribution to consolidated results attributable to the parent company is shown below:

Company	2006	2005
Técnicas Reunidas, S. A.	50,391	23,165
Técnicas Reunidas Internacional, S. A.	2,980	322
Técnicas Reunidas Ecología, S. A.	1,577	132
Técnicas Reunidas Gulf L.T.D.	(14,109)	52
Grupo Layar	5,788	712
Initec Plantas Industriales, S.A.	19,031	14,651
Initec Chile, S.A.	1,092	173
Other companies	4,483	1,960
Profit attributed to the parent company	**71,233**	**41,167**

The proposal for the distribution of the parent company's 2006 profit that will be presented to the Annual General Meeting and the approved distribution for 2005 is as follows:

	2006	2005
Available for distribution		
Profit for the year	60,933	39,488
	60,933	**39,488**
Distribution		
Retained earnings	25,159	15,488
Dividends	35,774	24,000
	60,933	**39,488**

The item Dividends is analysed below:

- 2005: Dividends totalling K€24,000 break down as follows:
  - K€12,000 approved as an interim dividend by the General Meeting held on 21 December 2005.
  - K€11,800 approved as an interim dividend by the General Meeting held on 30 March 2006.
  - K€200, in addition to the K€23,800 paid out as an interim dividend as indicated above, approved by the General Meeting on 10 May 2006.

- 2006: Dividends totalling K€35,774 break down as follows:
  - K€16,769 approved as an interim dividend by the General Meeting held on 15 December 2006 and paid on 24 January 2007.
  - K€19,005 submitted for the approval of the Annual General Meeting that will approve the 2006 annual accounts.

Additionally, on 9 March 2006 the General Meeting approved the payment of dividends totalling K€48,000 out of retained earnings.

The forecast accounting statement and the cash flow statement at the 2006 interim dividend payment date are as follows:

	Amount
Estimated profit for the year	56,000
Estimated income tax	3,900
Maximum possible pay-out	59,900
Proposed pay-out	16,769
Surplus	**43,131**
Cash prior to pay-out	145,000
Amount of interim dividend	16,769
Cash surplus	**128,231**

Movements in minority interests in 2006 and 2005 are analysed below:

	1 January 2005	Increases	Other	31 December 2005	Increases	Other	31 December 2006
Eurocontrol, S.A.	1,070	269	123	1,462	116	(67)	1,511
Pegasides, SICAV de SA	3	4	(3)	4	-	-	4
Termotécnica, S.A.	1	-	-	1	-	-	1
ReciclAguilar, S.A.	(15)	(8)	2	(21)	(15)	33	(3)
TR Gulf Ltd.	59	17	6	82	-	(82)	-
TR Engineering LLC	-	173	430	603	273	(82)	794
TR Oman LLC	-	-	-	-	11	301	312
Total	**1,118**	**455**	**558**	**2,131**	**385**	**103**	**2,619**

20. Trade and other payables

a) Trade payables are analysed below:

	2006	2005
Suppliers	593,662	314,435
Prepayments received for contracted work	288,766	235,064
Other	832	1,186
	883,260	**550,685**

b) Other payables are set out below:

	2006	2005
Non-current		
Finance lease liabilities	815	889
Other items	255	-
	1,070	**889**
Current		
Finance lease liabilities	818	722
Dividends pending payment	17,185	12,474
Other items	4,545	4,795
	22,548	**17,991**

Non-current finance lease liabilities have the following maturities:

	2006	2005
Between 1 and 2 years	639	479
Between 2 and 5 years	176	410
More than 5 years	-	-
	815	**889**

The above amounts represent minimum lease payments discounted to their present value. Future financial charges under finance leases total K€145 (2005: K€128). The Group's finance leases relate to acquisitions of computer equipment and other property, plant and equipment.

21. Borrowings

	2006	2005
Non-current		
Bank borrowings	2,024	-
	2,024	-
Current		
Bank borrowings	48,308	54,210
	48,308	54,210
Total borrowings	50,332	54,210

Average effective interest rates (all variable) at the balance sheet date are as follows:

	2006		2005	
	Euro	US dollar	Euro	US dollar
Bank borrowings	3.6%	6%	3.5%	5%

The carrying amount of borrowings approximates their fair value.

The carrying amount of the Group's borrowings is denominated in the following currencies:

	2006	2005
Euros	20,147	49,604
US dollars and other currencies	30,185	4,606
	50,332	54,210

At 31 December 2005, as security for borrowings totalling K€32,230, the Group had pledged all its shares in the subsidiary Pegasides SICAV, S.A. The net assets contributed by that company at 31 December 2005 totalled K€36,132. This guaranteed operation was cancelled in 2006.

The Group has the following unused credit lines:

Variable rate:	2006	2005
– maturing in less than one year	69,754	25,579
– maturing in more than one year	44,223	28,788
	113,977	54,367

22. Employee benefits

At 31 December 2006, the Group recognises obligations with its employees in respect of pensions, retirement benefits and non-current remuneration.

Pension and retirement obligations refer to commitments set out in the Collective Bargaining Agreement of certain Group companies, relating to retirement awards for employees that have worked for the number of years stipulated in the agreement at the date of retirement.

Non-current remuneration obligations refer to length-of-service awards payable by certain Group companies.

At 31 December 2006 there are no assets linked to the defined benefit commitments with employees.

	2006	2005
Commitments in the balance sheet in respect of:		
Pension and retirement benefits	3,769	3,438
Non-current remuneration obligations	230	292
	3,999	3,730
Charges in the income statement in respect of:		
Pension and retirement benefits	537	595
Non-current remuneration obligations	(40)	55
	497	650

Pension and retirement benefits
The amounts recognised in the balance sheet have been calculated as follows:

	2006	2005
Present value of the obligations at 1 January	3,438	3,037
Cost of the services for the current year	279	257
Interest expense	144	141
Benefits paid and expenses	(206)	(194)
Actuarial gains/(losses)	(114)	(197)
Liability in the balance sheet	3,769	3,438

Movements in the liability recognised in the balance sheet are as follows:

	2006	2005
Opening balance	3,438	3,037
Expense charged to the income statement	537	595
Contributions paid	(206)	(194)
Closing balance	3,769	3,438

The principal actuarial assumptions used are as follows:

	2006	2005
Annual discount rate	4.60%	4.30%
Annual salary growth	4.00%	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 income statement are as follows:

	2006	2005
Cost of current services	279	257
Interest expense	144	141
Actuarial gains/(losses)	(114)	(197)
Total included in staff costs (Note 26)	537	595

Non-current remuneration obligations
The amounts recognised in the balance sheet have been calculated as follows:

	2006	2005
Present value of the obligations at 1 January	292	287
Cost of the services for the current year	29	26
Interest expense	12	13
Benefits paid and expenses	(22)	(50)
Actuarial gains/(losses)	81	(16)
Liability in the balance sheet	230	292

Movements in the liability recognised in the balance sheet are as follows:

	2006	2005
Opening balance	292	287
Expense charged to the income statement	(40)	55
Contributions paid	(22)	(50)
Closing balance	230	292

The amounts recognised in the income statement are as follows:

	2006	2005
Cost of current services	29	26
Interest expense	12	13
Actuarial gains/(losses)	81	(16)
Total included in staff costs (Note 26)	(40)	55

The actuarial assumptions for this commitment are the same as those used for pension and retirement commitments as they have similar compliance conditions.

23. Provisions for liabilities and charges

a) Provisions for liabilities and charges – Non-current portion

ITEM	Provision for estimated project losses	Provision for project completion	Other provisions	Total provisions for liabilities and charges
Balance at 1.1.2005	**2,340**	**19,360**	**11,464**	**33,164**
Reversals	1,754	19,174	2,860	23,788
Applications	-	-	2,000	2.000
Appropriations for the year	1,000	36,855	7	37,862
Balance at 31.12.2005	**1,586**	**37,041**	**6,611**	**45,238**
Reversals	-	5,323	4	5,327
Applications	1,586	14,316	6,607	22,509
Appropriations for the year	-	4,114	1,610	5,724
Balance at 31.12.2006	**-**	**21,516**	**1,610**	**23,126**

Provision for estimated project losses:

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

Provision for project completion:

For projects that are completed or substantially completed and, therefore, are in the warranty period or are close to entering the warranty period, the Group estimates probable costs that will be incurred during the warranty period and makes the relevant provision.

The provisions recognised by the Group at year-end 2006 and 2005 relate to the following projects:

Project	2006	2005
Project 1630 – EO/EG Plant Nanhai	1,000	3,000
Project 1640 – C1 Chemical Complex Basf	2,500	5,000
Project 1660 – Diesel / Kerosene Hydrop.	3,567	4,900
Project 1690 – DHT Complex – Yanbu Refi. Pro.	3,369	6,200
Project 8211 – LNG terminal – Port of Bilbao	1,662	1,665
Project 8214 – Field development Ourhoud	1,710	2,060
Project Damietta - Segas	3,733	9,499
Other projects	3,975	4,717
Total	**21,516**	**37,041**

Other provisions:

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

b) Provisions for liabilities and charges – Current portion

Balance at 1 January 2005	**2,903**
Reversals	686
Applications	-
Appropriations for the year	2,804
Balance at 31 December 2005	**5,021**
Reversals	1,598
Applications	-
Appropriations for the year	6,823
Balance at 31 December 2006	**10,246**

24. Ordinary revenues

	2006	2005
Construction and engineering contract revenues	1,233,805	684,978
Services rendered	723	136
Total ordinary revenues	1,234,528	685,114

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

25. Other operating expenses and revenues

	2006	2005
Other operating expenses		
Services	126,659	95,059
Independent professional services	52,152	21,226
Repairs and maintenance	4,260	3,000
Banking and similar services	4,151	2,496
Insurance premiums	3,586	1,580
Supplies	1,684	1,125
Other	8,050	21,363
	200,542	145,849
Other operating revenues		
Operating grants	433	1,330
Other	1,922	3,793
	2,355	5,123

The item Other in Other operating expenses relates mainly to appropriations to and reversals of provisions for non-current and current liabilities and charges.

26. Employee benefit expenses

	2006	2005
Wages and salaries, including severance indemnities amounting to K€1,584 (2005: K€883).	141,131	93,963
Social security expense	24,252	23,148
Pension cost – pension and retirement benefit plans (Note 22)	537	595
Non-current remuneration obligations (Note 22)	(40)	55
	165,880	117,761

27. Operating leases

Minimum future payments on irrevocable operating leases are as follows:

	2006	2005
Less than 1 year	8,641	8,521
Between 1 and 5 years	18,435	24,022
More than 5 years	1,376	2,478

The expense recognised in the income statement during the year in respect of operating leases totalled K€21,113 (2005: K€11,402), relating entirely to minimum lease payments.

28. Financial results

	2006	2005
Interest expense:		
- Bank borrowings	(2,723)	(1,223)
Interest revenue:		
- Other	9,743	2,690
	7,020	1,467
Net gains /(losses) net on transactions in foreign currency	(5,538)	2,264
Fair value gains on financial insurance at fair value through profit or loss	3,713	3,106
	(1,825)	5,370
	5,195	6,837

29. Income tax

On 30 September 1993, the Directorate General for Taxation authorised the following companies to apply the tax consolidation regime: Técnicas Reunidas, S.A., Técnicas Reunidas Internacional, S.A., Termotécnica, S.A., Técnicas Reunidas Construcciones y Montajes, S.A. and Técnicas Reunidas Ecología, S.A. Subsequently, in 1994, the companies Técnicas Siderúrgicas, S.A., Española de Investigación y Desarrollo, S.A. and Técnicas Reunidas Proyectos Internacionales, S.A. were included in the tax consolidation regime. The tax group was enlarged in 1998 to include Técnicas Reunidas Metalúrgicas, S.A. and, in 1999, Layar, S.A., Layar Castilla, S.A. and Layar Real Reserva, S.A. Eurocontrol, S.A. and ReciclAguilar, S.A. were included in 2003 and Initec Plantas Industriales, S.A. and Initec Infraestructuras, S.A. in 2004. During 2006, as a result of the operation described in Note 34.a.2), the company Layar Castilla, S.A. ceased to form part of the tax group.

	2006	2005
Current income tax	6,100	(2,068)
Deferred tax	868	(2,962)
	6,968	(5,030)

No deferred taxes generated by transactions have been directly charged or credited to equity.

The income tax on the Group's pre-tax profit differs from the theoretical amount that would have been obtained had the tax rate applicable to the consolidated companies' profits been applied, as shown below

	2006	2005
Profit before taxes	78,586	36,592
Tax calculated at the tax rate applicable to the parent company's profits	27,505	12,808
Tax-free results	(18,780)	(16,823)
Non-tax deductible expenses	78	138
Effect of differences in foreign tax rates	955	(821)
Deductions generated	(3,020)	-
Other (net)	230	(332)
Tax expense	6,968	(5,030)

The effective tax rate was 8.87% (13.75% in 2005), due mainly to the Group's foreign revenues, which are exempt from Spanish income tax in accordance with Law 18/1982 (26 May) on the Tax System for Groupings and UTEs, and for Regional Industrial Development Companies. These revenues are included in the item Tax-free results in the above table and were generated mainly by UTEs engaged in export activities (see Exhibit IV).

The item "Other (net)" includes the effect generated in 2006 on deferred taxes by the change in the income tax rate from 35% to 32.5% in 2007 and 30% in 2008.

Deferred tax assets and liabilities

	2006	2005
Deferred tax assets		
- to be offset after more than 12 months	18,384	24,020
- to be offset in less than 12 months	-	-
	18,384	**24,020**
Deferred tax liabilities		
- to be offset after more than 12 months	659	258
- to be offset in less than 12 months	-	-
	659	**258**

Movements in deferred tax assets and liabilities are as follows:

	Asset	Liability
At 31 January 2005	**19,315**	**(277)**
Reversals	(6,636)	101
Appropriations for the year	11,730	(82)
Other movements	(389)	-
At 31 December 2005	**24,020**	**(258)**
Reversals	(15,427)	-
Appropriations for the year	9.590	(401)
Other movements	201	-
At 31 December 2006	**18,384**	**(659)**

Deferred tax assets and liabilities are analysed below:

	2006	2005
Tax credits for tax-loss carryforwards	-	7,968
Tax credits for deductions pending application	2,799	-
Tax credits arising from temporary differences:		
- Provisions for liabilities and charges	6,958	12,679
- Change in current assets	2,855	1,926
- Change in non-current assets	1,076	1,447
- Other items	4,696	-
	18,384	**24,020**

	2006	2005
Grants	316	258
Other items	343	-
	659	**258**

Deferred tax assets in respect of tax-loss carryforwards are recognised insofar as the realisation of the relevant tax benefit through future taxable profits is probable. At 31 December 2005, the Group recognised deferred tax assets totalling K€7,968 in respect of losses amounting to K€22,765 to be offset against future taxable profits; these tax-loss carryforwards were fully applied in 2006 and no assets are therefore recorded in this respect.

At 31 December 2006 the Group records deductions pending application totalling K€5,922 (2005: K€4,929). These deductions mainly derive from reinvestment, research and development expenses and exports. At 31 December 2006, the Group recognised an asset of K€2,799 of the above-mentioned total; the Group did not recognise any asset in respect of the remaining amount as it was unable to guarantee the future offset of that amount.

30. 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.

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.

As mentioned in Note 16, when the Company changed the par value of its outstanding shares, the number of shares also changed, from 931,600 ordinary shares to 55,896,000 ordinary shares. For the sake of comparability, earnings per shares have been calculated taking into account both numbers, as follows:

	2006	2005	2006	2005
Profit attributable to the company's equity holders	71,233	41,167	71,233	41,167
Weighted average number of ordinary shares outstanding	55,896,000	55,896,000	931,600	931,600
Basic earnings per share (euro per share)	1.27	0.74	76.46	44.19

31. Dividends per share

Dividends paid in 2005 out of 2004 profits totalled K€12,800, entailing a dividend per share of €13.74 (based on 931,600 shares, or €0.23 based on 55,896,000 shares).

During 2006 dividends were paid out of 2005 profits in the amount of K€24,000 (of which K€12,000 had been declared as an interim dividend in 2005), representing a dividend per share of 25.76 euros (based on 931,600 shares, or 0.43 euros based on 55,896,000 shares). The above-mentioned dividends do not include an extraordinary dividend of K€48,000 paid in 2006.

The dividend to be submitted to the Annual General Meeting that will approve these consolidated annual accounts during 2007 is K€35,774 (of which K€16,769 was declared in 2006 as an interim dividend), entailing a dividend per share of 38.40 euros (based on 931,600 shares, or 0.64 euros based on 55,896,000 shares).

32. Contingencies and guarantees furnished

The Group has contingent liabilities relating to bank and other guarantees that arose during the ordinary course of business. No significant liability is expected to arise besides the situations for which provision was made as explained in Note 23. In the ordinary course of the Group's activities, as is common practice with engineering and construction companies, guarantees provided to third parties totalled K€522,440 (2005: K€445,485), as security for the performance of contracts.

In accordance with the general terms of contracting, the parent company and Group companies are required to provide technical guarantees for the execution of work, in cash or in the form of bank guarantees, which must remain in force for a specified period.

33. Commitments

Commitments to purchase non-current assets
There are no significant investment commitments relating to the purchase of non-current assets at the balance sheet date.

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' prior notice of the termination of these agreements.

34. Related-party transactions

Transactions with related parties in 2006 and 2005 arose in the ordinary course of business. These transactions with related parties are described below:

a) Transactions with the parent company's principal shareholders

a.1) Transactions with Banco Bilbao Vizcaya Argentaria Group (BBVA Group):
The Group carries out transactions with the BBVA Group only with respect to its banking activities.

Set out below are details of these transactions at 31 December 2006 and 2005:

	2006	2005
Credit facilities	28,093	20,045
Balances utilised	6,512	10,244
Guarantees furnished	147,982	163,871
Letter of credit facilities	10,000	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 the BBVA Group.

The Group had contracted forward currency transactions with the BBVA Group, the notional values of which totalled 46,523,000 US dollars (2005: 79,689,000 US dollars).

The income statement for each period includes the costs and revenues related to the above-mentioned transactions, which were carried out at arm's length.

a.2) Transactions with Aragonesas Promoción de Obras y Construcciones, S.L.

During 2006 the parent company reached an agreement with Aragonesas Promoción de Obras y Construcciones, S.L. to sell 74.61% of the company Layar Castilla, S.A., reducing this shareholding to 25.39% at 31 December 2006. The transaction was completed at the fair value of the shareholding, based on independent expert valuations, generating a gain of K€13,034 before tax, as recognised in 2006. As the shareholding in Layar Castilla, S.A. decreased from 100% in 2005 to 25.39% in 2006, this company was reclassified from a subsidiary to an associate (see Exhibit II).

b) Transactions with company Board Directors and executives

Set out below is an analysis of transactions effected with companies in which the parent company's Board Directors are also directors or administrators:

	2006				2005			
	Trade receiv.	Trade payables	Purch.	Sales	Trade receiv.	Trade payables	Purch.	Sales
Grupo CEPSA	822	-	2	5,695	1,019	7	40	2,536
Air Liquide	-	-	-	-	-	-	4	-
Tubos Reunidos	-	453	809	-	-	-	-	-
Schneider	-	-	12	-	-	-	-	-
C-60	22	-	-	82	-	-	-	-

Note 39 provides details of remuneration paid to the Board Directors of Técnicas Reunidas, S.A.

During 2006, remuneration paid to company executives in respect of fixed and variable salaries totalled K€3,123 (2005: K€2,599).

c) Transactions with associates included in Exhibit II

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

	2006				2005			
	Trade receiv.	Trade payables	Purch.	Sales	Trade receiv.	Trade payables	Purch.	Sales
Productora de Diesel, S.A.	-	-	-	-	-	-	-	1,562

35. Joint ventures

The Group has interests in the joint ventures listed in Exhibit III. The amounts set out below represent the Group's percentage interest in the assets, liabilities, revenues and profits of the joint ventures. These amounts have been included in the consolidated balance sheet and income statement (before consolidation eliminations):

Assets:	**2006**	**2005**
Non-current assets	639	622
Current assets	46,647	125,371
	47,286	125,993
Liabilities:		
Non-current liabilities	3,738	-
Current liabilities	38,264	118,430
	42,002	118,430
Net assets	5,284	7,563
Revenues	72.998	65,758
Expenses	72.848	64,978
Profit after taxes	150	780

36. Temporary joint ventures (UTEs)

The Group has interests in the UTEs listed in Exhibit IV. The amounts set out below represent the Group's percentage interest in the assets, liabilities, revenues and profits of the UTEs. These amounts have been included in the consolidated balance sheet and income statement (before consolidation eliminations):

Assets:	**2006**	**2005**
Non-current assets	-	-
Current assets	445,672	351,001
	445,672	351,001
Liabilities:		
Non-current liabilities	-	-
Current liabilities	380,763	335,226
	380,763	335,226
Net assets	64,909	15,775

Revenues	708,085	230,116
Expenses	643,176	214,339
Profit after taxes	64,909	15,777

37. Environment

Given the activity in which the Group companies are involved, it has no environmental liabilities, expenses, assets, provisions or contingencies that could be significant in relation to its equity, financial situation and results. For this reason, no specific breakdown of environmental information is provided in these notes to the annual accounts.

38. Events after the balance sheet date

There have been no relevant events after the balance sheet date that could have a significant impact on these consolidated annual accounts.

39. Other information

a) Average number of Group employees by category

	2006	**2005**
Category:		
Engineers and university graduates	1,265	895
Technical engineers, experts and graduate assistants	533	525
Administrative managers	425	425
Unqualified assistants	340	312
Other categories	441	487
TOTAL	**3,004**	**2,644**

b) Audit fees

The fees accrued in 2006 to PricewaterhouseCoopers Auditores, S.L. for audit and other services totalled K€822. In addition, fees accrued in 2006 for other services rendered to the Group by other companies that use the PricewaterhouseCoopers trademark totalled K€896.

c) Information 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 Board Director or Administrator of Initec Plantas Industriales, S.A., Initec Infraestructuras, S.A., Técnicas Reunidas Internacional, S.A., Técnicas Reunidas Proyectos Internacionales, S.A., Española de Investigación y Desarrollo, S.A., Eurocontrol, S.A. and Empresarios Agrupados Internacional, S.A.; he is also a member of the business organisation Comité de Empresarios Agrupados A.I.E. All of the above-mentioned companies form part of the Tecnicas Reunidas Group.
- Mr Javier Gómez Navarro is a Non-Executive Director of the company Grupo Isolux Corsán, S.A.

d) Remuneration paid to the company's Board Directors

Set out below are details of the overall remuneration received by the company's Board Directors during the financial year ended 31 December 2006 (Board Directors during 2006 but not necessarily at the date of this report):

- Per diems for attending Board meetings K€600 (2005: K€293).
- Wages and salaries: K€586 (2005: K€460).

Exhibit I

SUBSIDIARIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Company name	Registered office	Shareholding: Cost (K€)	Shareholding: % of par value	Shareholder company	Consolid. method	Activity	Auditor
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 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	3,670	99%	Técnicas Reunidas, S.A.	Full	Financial	Deloitte
Tecnicas Reunidas Oman LLC (*)	Muscat	215	70%	Initec Plantas Industriales, S.A.	Full	Engineering services	Not audited

(*) Companies acquired during the year and/or acquisition of additional shares in companies already included in the previous year's consolidation. The inclusion of these companies in the consolidation scope did not generate additional sales during the year.

Exhibit II

ASSOCIATES INCLUDED IN THE SCOPE OF CONSOLIDATION

Company name	Registered office	Shareholding		Shareholder company	Consolid. method	Activity	Auditor
		Cost (K€)	% of par value				
Layar Castilla, S.A.	Madrid	3,968	25.39%	Técnicas Reunidas, S.A.	Equity	Real estate development	Not audited
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

Exhibit III

JOINT VENTURES INCLUDED IN THE SCOPE OF CONSOLIDATION

Company name	Registered office	Shareholding		Joint venture partner	Consolid. method	Activity	Auditor
		Cost (K€)	% of par value				
Heymo Ingeniería, S. A.	Madrid	517	39.98%	Técnicas Reunidas, S. A.	Proportionate	Engineering services	KPMG
KJT Engeharia Materiais	Madeira	2	33.33%	Técnicas Reunidas, S. A.	Proportionate	Engineering services	Deloitte
Damietta Project Management Co.	London	0	33.33%	Técnicas Reunidas, S. A.	Proportionate	Engineering services	KPMG
Damietta LNG Construction	Damietta	2,941	33.33%	Técnicas Reunidas, S. A.	Proportionate	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.	Proportionate	Engineering services	PwC
Minatrico, S. de R.L. de C.V.	Mexico City	0	33.33%	Técnicas Reunidas, S. A.	Proportionate	Engineering services	PwC
Construcción e Ingeniería D.I. Ltda.	Santiago	1	50.00%	Initec Chile, S.A.	Proportionate	Engineering services	Other
Construcción e Ingeniería FIM Ltda.	Santiago	1	33.33%	Initec Chile, S.A.	Proportionate	Engineering services and project execution	Not audited
Construcción e Ingeniería FI Ltda.	Santiago	1	50.00%	Initec Chile, S.A.	Proportionate	Engineering services and project execution	Not audited

Exhibit IV

UTEs IN WHICH THE CONSOLIDATED COMPANIES HAVE INTERESTS

UTE name	Interest
UTE INITEC/TR PLANTAS HDT Y HCK	100%
UTE INITEC/TR JU'AYMAH GPE	100%
UTE TR/INITEC/DRAGADOS ARGELIA	67%
UTE TR/EC ESMERALDAS PESETAS	100%
UTE TR/EC ESMERALDAS ECUADOR	100%
UTE TR/EUROCONTROL PROY.ASPPC	100%
UTE TR/LOGPLAN A.T.AENA	55%
UTE TR/TT HORNOS RUSIA	95%
UTE TR/SEG PROY.NT AENA	70%
UTE TR/INITEC KJT PR. LNG	100%
UTE TR/INITEC DAMIETTA LNG	100%
UTE TR/IONICS RAMBLA MORALES	40%
UTE TR/TRIMTOR EDAR LIBRILLA	50%
UTE TR/PYCSA LOS BOTONES	50%
UTE TR/PYCSA CUEVAS DEL CAMPO	50%
UTE TR/RTA VILLAMARTIN	50%
UTE TR/SERCOAL/PROGALL VIVIENDAS	40%
UTE TR/ARDANUY ALGECIRAS	70%
UTE TR/SEG PORTAS	50%
UTE TR/INITEC MINTRA TREN MOSTOLES	1050%
UTE TR/INTERCONTROL VARIANTE PAJARES	80%
UTE TR/ALTAMARCA/HMF C.ALCOBENDAS	34%
UTE TR/GDF CTCC PUERTO DE BARCELONA	50%
UTE TR/INITEC EBRAMEX INGENIERIA	51%
UTE TR/INITEC MINATRICO INGENIERIA	51%
UTE TR/ASFALTOSY CONS.APARCAM.ALCOBENDAS	50%
UTE TR/INITEC PROYECTO DGC CHILE	100%
UTE TR/INITEC JV HAWIYAH GPE	100%
UTE TR/CTCI GUANDONG EO/EG	90%
UTE TR/CTCI JIANGSU SERVICIOS	90%
UTE TR/CTCI JIANGSU SUMINISTROS	90%
UTE TR/SENER PROEYCTO HPP GEPESA	60%
UTE TR/FW/SENER GEPESA	33%
UTE TR/INITEC/INTECSA INTEIN	33%
UTE PLANTAS RSU MEIRAMA	14%
UTE TR/FERROVIAL LA PLANA DEL VENT	58%
UTE TR/INITEC/EMMSA GASODUCTO MAGREB	50%
UTE INITEC/TR MILD HYDROCRAKING	100%
UTE TORRE COTILLAS	50%
UTE CAMPO DE ESPINARDO	50%
UTE TR/IONICS EL REVENTON	45%
UTE TR/MASTER APM BARCELONA	50%
UTE TR/SEG BOBADILLA	50%
UTE TR/INITEC/DRAGADOS ARGELIA	100%
UTE TR/INITEC MINTRA	100%
UTE TR/INITEC SAIH RAWL	100%
UTE SERCOAL CENTRO DE DÍA	60%
UTE SERCOAL VIVIENDAS	40%

UTE name	Interest
UTE TR/HEYMO ADPI	40%
UTE TR/ANETO/FECOR Pº MARITIMO	33%
UTE TR/SATE MALLORCA	50%
UTE TR/ARDANUY SEÑALIZACION	50%
UTE TR/PYCSA PRESA ARENOSO	50%
UTE TR/DF BARRANCO	50%
UTE TR/DF AS PONTES	50%
UTE TRISA/EUROCONTROL OX. DE ETILENO	100%
UTE TRISA/EUROCONTROL ACERIA DE WISCO	100%
UTE TRISA/EUROCONTROL AC. WUHAN	100%
UTE TRISA/EUROCONTROL ETILENO	100%
UTE TRISA/EBRAMEX SUMINISTROS	50%
UTE TRISA/MINATRICO SUMINSTROS	50%
UTE DALIAS	65%
UTE SA POBLA	50%
UTE SANTIAGO	50%
UTE AUTOVIA SANTIAGO-LUGO	50%
UTE VALENCIA	63%
UTE PRESA ITOIZ	50%
UTE LAMELA	25%
UTE FARNALS	50%
UTE L'ELIANA	50%
UTE LOTETA	50%
UTE INITEC/INTRAESA	50%
UTE INITEC/PYCSA ALBERCA DEL JUCAR	70%
UTE INITEC/ANETO CONSULTORES MANACOR	50%
UTE INITEC/INTECSA-INARSA PUESTA EN CARGA ITOIZ	50%
UTE INIPSA-EPTISA-INITEC INFRAESTRUCTURAS ARVE 2004	25%
UTE EPYSA-INITEC	40%
UTE INITEC INFRAESTRUCTURAS S.A.-GEOCART	50%
UTE INITEC INFRAESTRUCTURAS TRAMO I	50%
UTE INITEC-PROVER	50%
UTE TIS	33%
UTE TZI HUELVA	30%
UTE TZI CARTAGENA	30%
UTE PAMPILLA	50%
UTE COGENERACION	50%
UTE HUELVA 4 LNG	27%
UTE FW/INITEC PLANTAS/MAN FERROSTAAL(ACONCAGUA-I)	33%
UTE FW/INITEC PLANTAS(ACONCAGUA-II)	50%
UTE TRSA/INITEC INDUSTRIAL MINA-TRICO	49%
UTE TRSA/INITEC INDUSTRIAL EBRAMEX	49%
UTE TR/INITEC/DRAGADOS ARGELIA	100%
UTE TR/INITEC MINTRA PISCINA HUERCAL OVERA	100%
UTE TR/INITEC DESALADORA RAMBLA MORALES	100%
UTE TR/INITEC MINTRA PARCELA 5	100%
UTE SERCOAL SERVICIOS MÚLTIPLES	50%

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 DIRECTOR'S REPORT FOR 2006

1. Financial highlights

The Group prepares its consolidated annual accounts in accordance with International Financial Reporting Standards (IFRS).

During 2006 the Group's net revenues rose to €1,235 million, 80.2% up on 2005, maintaining the trend observed in previous years.

EBITDA totalled K€59,893, representing 4.85% of revenues (excluding public offering costs of K€2,800, EBITDA would amount to K€62,693 or 5.08% of revenues).

Consolidated profits after tax totalled K€71,618 or 5.80% of revenues.

2. Research and development activities

The Group continued to invest in research, development and innovation, which is critical in order for TÉCNICAS REUNIDAS to develop technologies for the commercial niches identified.

3. Significant events after the balance sheet date

Business evolution

In the first few months of 2007, the Group has observed growth in the number of new projects awarded and in invitations to bid, which confirms that the market is expanding, particularly refining and petrochemicals. The increase in demand favours the TR Group's negotiating position in relation to future contracts.

4. Purchase of own shares

The Group had no dealings in own shares during 2006.

5. Management of financial risks and use of financial instruments

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

The financial instruments contracted by the Group are used basically to hedge foreign exchange risks. A significant part of the Group's operations are effected in a currency other than the euro, its functional currency. The Group arranges put contracts, generally on US dollars, to hedge the risk of fluctuations in the exchange rates applied for conversion purposes. The foreign exchange hedges are contracted for each specific project based on an assessment of expected currency flows and after considering the impact of natural hedges. Outstanding currency hedges at 31 December 2006, basically for US dollars, amounted to 414,759,000 US dollars.

6. Other business risk factors

Demand for TÉCNICAS REUNIDAS' services is closely related to the level of investment in the gas and oil industry, which is unpredictable.
TÉCNICAS REUNIDAS depends on a relatively small number of contracts and customers.
TÉCNICAS REUNIDAS carries out a part of its activities abroad. These activities are exposed to potential economic, social and political uncertainties. Unexpected and adverse changes in the countries in which TR operates could give rise to project interruptions, cost increases and potential losses.
TÉCNICAS REUNIDAS depends on its key executives.
The success of our partnerships, consortia, UTEs and joint ventures depends on the satisfactory fulfilment by our partners of their respective obligations.

A failure in our information technology systems could have an adverse impact on TÉCNICAS REUNIDAS' business performance.
TÉCNICAS REUNIDAS is exposed to counterparty credit risk.
The future of TÉCNICAS REUNIDAS' business is subject to the award of new contracts.
TÉCNICAS REUNIDAS is exposed to foreign exchange risk.
TÉCNICAS REUNIDAS may be exposed to claims arising from errors or omissions by its professionals.
Liability to customers for warranties could have a material and adverse impact on TR's profits.
TÉCNICAS REUNIDAS is not free from the risk of becoming involved in lawsuits.

7. Average number of Group employees by category

	2006	2005
Category		
Engineers and university graduates	1,265	895
Technical engineers, experts and qualified assistants	533	525
Administrative heads	425	425
Unskilled workers	340	312
Other categories	441	487
TOTAL	3,004	2,644

8. Environment

Given the activities carried out by the Group, it does not have any environmental liabilities, expenses, assets, provisions or contingencies that could be considered significant with respect to its equity, financial situation and results.

TECNICAS REUNIDAS

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