



**TÉCNICAS REUNIDAS, S.A.
AND SUBSIDIARIES**

Interim Condensed Consolidated Financial Statements
and Interim Consolidated Management Report for the
six-month period ended 30 June 2020
and Limited Review Report



**TÉCNICAS REUNIDAS, S.A.
AND ITS SUBSIDIARIES**

Report on Limited Review of
Condensed Consolidated Interim Financial Statements
as at June 30, 2020



This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

REPORT ON LIMITED REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Técnicas Reunidas, S.A.

Report on the Condensed Interim Consolidated Financial Statements

Introduction

We have performed a limited review of the accompanying condensed interim consolidated financial statements (hereinafter, the interim financial statements) of Técnicas Reunidas, S.A. (hereinafter, the parent company) and its subsidiaries (hereinafter, the group), which comprise the interim balance sheet as at June 30, 2020, and the interim income statement, interim statement of other comprehensive income, interim statement of changes in equity, interim cash flow statement and related notes, all condensed and consolidated, for the six months period then ended. The parent company's directors are responsible for the preparation of these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial information, as provided in Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with legislation governing the audit practice in Spain and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these interim financial statements.

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Conclusion

Based on our limited review, that cannot be considered as an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six months period ended June 30, 2020 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial statements, as provided in Article 12 of Royal Decree 1362/2007.

Emphasis of Matters

We draw attention to Note 2, in which it is mentioned that these interim financial statements do not include all the information required of complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, therefore the accompanying interim financial statements should be read together with the consolidated annual accounts of the group for the year ended December 31, 2019. This matter does not modify our conclusion.

Similarly, Note 2.3 describes the implications for the group resulting from the situation triggered by the COVID-19 outbreak. This matter does not modify our conclusion.

Other information: interim consolidated directors' Report

The accompanying interim consolidated directors' Report for the six months period ended June 30, 2020 contains the explanations which the parent company's directors consider appropriate regarding the principal events of this period and their impact on the interim financial statements presented, of which it does not form part, as well as the information required under the provisions of Article 15 of Royal Decree 1362/2007. We have verified that the accounting information contained in this directors' Report is in agreement with that of the interim financial statements for the six months period ended June 30, 2020. Our work is limited to checking the interim consolidated directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Técnicas Reunidas, S.A. and its subsidiaries' accounting records.

Other Matters

This report has been prepared at the request of the Board of Directors in relation to the publication of the half-yearly financial report required by Article 119 of Royal Legislative Decree 4/2015 of 23 October, approving the revised text of the Securities Market Law developed by the Royal Decree 1362/2007, of 19 October.

PricewaterhouseCoopers Auditores, S.L.

Deloitte, S.L.

Original in Spanish signed by
Goretty Álvarez González

Original in Spanish signed by
F. Javier Peris Álvarez

July 29, 2020

July 29, 2020

This version of the condensed interim condensed consolidated financial statements is a free translation from the original, which is prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the condensed interim consolidated financial statements takes precedence over this translation.

**Contents of the interim condensed consolidated financial statements
of Técnicas Reunidas, S.A. and Subsidiaries**

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TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2020
(Amounts in thousands of euros)

	Notes	At 30 June 2020 (unaudited)	At 31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	9	50,538	51,626
Goodwill	9	1,242	1,242
Other intangible assets	9	52,194	53,161
Rights of use on leased assets	10	31,797	42,473
Investments in associates		2,926	3,422
Deferred tax assets		395,991	387,424
Derivative financial instruments	11.a	146	295
Accounts receivable and other financial assets	11.a	92,983	92,044
		627,817	631,687
Current assets			
Inventories		5,570	5,457
Trade and other receivables		3,070,921	2,672,058
Accounts receivable and other assets	11.a	11,835	11,766
Derivative financial instruments	11.a	12,496	6,551
Financial assets at fair value through profit or loss	11.a	62,027	65,135
Cash and cash equivalents		961,625	887,629
		4,124,474	3,648,596
Total assets		4,752,291	4,280,283

The accompanying Explanatory Notes 1 to 18 are an integral part of these Interim Condensed Consolidated Financial Statements.

TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2020
(Amounts in thousands of euros)

	Notes	At 30 June 2020 (unaudited)	At 31 December 2019
EQUITY			
Share capital and Reserves attributable to the Parent's shareholders			
Share capital	12	5,590	5,590
Share premium		8,691	8,691
Treasury shares	12	(73,539)	(73,830)
Legal reserve		1,137	1,137
Capitalisation reserve		3,056	3,056
Hedging reserve		(33,167)	(24,206)
Cumulative translation differences		(53,118)	(37,350)
Retained earnings		439,992	434,210
Equity attributable to shareholders		298,642	317,298
Non-controlling interests		15,027	12,730
Total equity		313,669	330,028
LIABILITIES			
Non-current liabilities			
Borrowings	11.b, d	214,590	296,503
Borrowings associated with rights of use of leased assets	10, 11b	10,980	17,678
Derivative financial instruments	11.b	4,048	2,928
Deferred tax liabilities		67,398	67,497
Other accounts payable	11.b	740	835
Other financial liabilities	11.b	684	692
Employee benefit obligations		207	2,714
Provisions for contingencies and charges	13.a	52,370	34,295
		351,017	423,142
Current liabilities			
Trade payables	11.b	3,205,979	2,978,633
Current tax liabilities		77,344	120,973
Borrowings	11.b, d	654,566	285,754
Borrowings associated with rights of use of leased assets	10, 11b	21,760	25,267
Derivative financial instruments	11.b	40,782	53,563
Other accounts payable	11.b	14,750	19,281
Provisions for contingencies and charges	13.b	72,424	43,642
		4,087,605	3,527,113
Total liabilities		4,438,622	3,950,255
Total equity and liabilities		4,752,291	4,280,283

The accompanying Explanatory Notes 1 to 18 are an integral part of these Interim Condensed Consolidated Financial Statements.

TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE
SIX-MONTH PERIOD ENDED 30 JUNE 2020
(Amounts in thousands of euros)

	Note s	Six-month period ended 30 June	
		2020 (unaudited)	2019 (unaudited)
Revenue		2,108,718	2,216,655
Changes in inventories		113	2,012
Procurements		(1,553,215)	(1,729,527)
Employee benefit expenses		(300,410)	(311,068)
Depreciation, amortisation and impairment losses	9, 10	(23,057)	(19,004)
Other operating expenses		(200,706)	(134,734)
Other operating income		1,627	3,043
Profit from operations		33,070	27,377
Finance income		2,256	3,592
Finance costs		(9,558)	(6,713)
Net exchange differences		(5,190)	(3,143)
Share in profit/(loss) of associates		(491)	(1,815)
Profit before tax		20,087	19,298
Income tax	8	(5,992)	(5,715)
Profit for the period		14,095	13,583
Attributable to:			
Shareholders of the Parent		11,691	13,356
Non-controlling interests		2,404	227
		14,095	13,583
(Loss)/Earnings per share for profit attributable to the equity holders of the Company (expressed in euros per share):			
- Basic and diluted	12	0.22	0.25

The accompanying Explanatory Notes 1 to 18 are an integral part of these Interim Condensed Consolidated Financial Statements.

TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE
2020

(Amounts in thousands of euros)

	Six-month period ended 30 June	
	2020 (unaudited)	2019 (unaudited)
Profit for the period	14,095	13,583
Items that may be reclassified to profit or loss		
Cash flow hedges	(9,040)	(8,158)
Tax effect	79	750
Cash flow hedges, net of tax	(8,961)	(7,408)
Exchange differences on translation of foreign operations	(15,875)	(1,422)
Total items that may be reclassified to profit or loss	(24,836)	(8,830)
Other comprehensive income for the period, net of tax	(24,836)	(8,830)
Total comprehensive income for the period	(10,741)	4,753
Attributable to:		
- Owners of the Parent	(13,038)	4,493
- Non-controlling interests	2,297	260
Total comprehensive income for the period	(10,741)	4,753

The accompanying Explanatory Notes 1 to 18 are an integral part of these Interim Condensed Consolidated Financial Statements.

TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30
JUNE 2020

(Amounts in thousands of euros)

Attributable to the owners of the Parent							Equity attributable to shareholders	Non-controlling interests	Total equity
	Share capital and share premium	Treasury shares	Legal and capitalisation reserves	Hedging reserve	Cumulative translation differences	Retained earnings			
Balance at 31 December 2019	14,281	(73,830)	4,193	(24,206)	(37,350)	434,210	317,298	12,730	330,028
Comprehensive income for the period									
Profit for the period	-	-	-	-	-	11,691	11,691	2,404	14,095
Other comprehensive income							-		-
Cash flow hedges, net of tax	-	-	-	(8,961)	-	-	(8,961)	-	(8,961)
Exchange differences on translation of foreign operations	-	-	-	-	(15,768)	-	(15,768)	(107)	(15,875)
Total other comprehensive income	-	-	-	(8,961)	(15,768)	-	(24,729)	(107)	(24,836)
Total comprehensive income for the period	-	-	-	(8,961)	(15,768)	11,691	(13,038)	2,297	(10,741)
Transactions with owners in their capacity as such:									
Treasury share transactions (net)	-	291	-	-	-	(668)	(377)	-	(377)
Distribution of 2019 profit	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	(5,241)	(5,241)	-	(5,241)
Total transactions with owners in their capacity as such	-	291	-	-	-	(5,909)	(5,618)	-	(5,618)
Balance at 30 June 2020 (unaudited)	14,281	(73,539)	4,193	(33,167)	(53,118)	439,992	298,643	15,027	313,669

The accompanying Explanatory Notes 1 to 18 are an integral part of these Interim Condensed Consolidated Financial Statements.

TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30
JUNE 2020

(Amounts in thousands of euros)

Attributable to the owners of the Parent							Equity attributable to shareholders	Non-controlling interests	Total equity
	Share capital and share premium	Treasury shares	Legal and capitalisation reserves	Hedging reserve	Cumulative translation differences	Retained earnings			
Balance at 31 December 2018	14,281	(74,116)	4,193	(7,292)	(38,528)	446,478	345,016	13,571	358,587
Comprehensive income for the period									
Profit for the period	-	-	-	-	-	13,356	13,356	227	13,583
Other comprehensive income									
Cash flow hedges, net of tax	-	-	-	(7,408)	-	-	(7,408)	-	(7,408)
Exchange differences on translation of foreign operations	-	-	-	-	(1,455)	-	(1,455)	33	(1,422)
Total other comprehensive income	-	-	-	(7,408)	(1,455)	-	(8,863)	33	(8,830)
Total comprehensive income for the period	-	-	-	(7,408)	(1,455)	13,356	4,493	260	4,753
Transactions with owners in their capacity as such:									
Treasury share transactions (net)	-	488	-	-	-	(136)	352	-	352
Distribution of 2019 profit	-	-	-	-	-	-	-	(95)	(95)
Other changes	-	-	-	-	-	(2,887)	(2,887)	-	(2,887)
Total transactions with owners in their capacity as such	-	488	-	-	-	(3,023)	(2,535)	(95)	(2,630)
Balance at 30 June 2019 (unaudited)	14,281	(73,628)	4,193	(14,700)	(39,983)	456,811	346,974	13,736	360,710

The accompanying Explanatory Notes 1 to 18 are an integral part of these Interim Condensed Consolidated Financial Statements.

TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR
THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 (in thousands of euros)

	Six-month period ended 30 June	
	2020 (unaudited)	2019 (unaudited)
Cash flows from operating activities		
<u>Profit for the period</u>	14,095	13,583
Adjustments for:		
Taxes	5,992	5,715
Depreciation and amortisation of property, plant and equipment, intangible assets and rights of use of leased assets	23,057	19,004
Net change in provisions	46,857	7,538
Share in profit/(loss) of associates	491	1,815
Changes in fair value of financial instruments	3,108	(649)
Interest income	(2,256)	(2,943)
Interest expense	6,450	6,713
Change in gains/(losses) on derivatives	7,229	8,990
Exchange differences	5,190	3,143
Other income and expenses	1,523	129
<u>Changes in working capital</u>		
Inventories	(113)	(1,964)
Trade and other receivables	(442,398)	(299,691)
Trade payables	203,404	287,493
Other accounts payable	(4,634)	(1,798)
Settlements of hedging derivatives and other changes	(33,809)	(20,997)
<u>Other cash flows from operating activities</u>		
Interest paid	(6,144)	(6,639)
Interest received	2,256	2,928
Taxes paid	(42,682)	(12,023)
Net cash flows (used in)/generated from operating activities	(212,382)	10,348
Cash flows from investing activities		
Acquisition of property, plant and equipment	(6,533)	(3,625)
Acquisition of intangible assets	(252)	(242)
Disposal of associates	20,994	562
Disposal of non-current assets	-	75
Net cash flows (used in)/generated from investing activities	14,209	(3,230)
Cash flows from financing activities		
Proceeds from borrowings	931,208	352,000
Repayment of borrowings	(643,277)	(339,468)
Dividends paid	-	(97)
Acquisition/disposal of treasury shares (net)	291	352
Net cash flows (used in)/generated from financing activities	272,169	(137)
Net change in cash and cash equivalents	73,996	6,982
Cash and cash equivalents at beginning of period	887,629	680,780
Cash and cash equivalents at end of period	961,625	687,762

The accompanying Explanatory Notes 1 to 18 are an integral part of these Interim Condensed Consolidated Financial Statements.

TÉCNICAS REUNIDAS, S.A. AND SUBSIDIARIES

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020.

1. General information

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

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

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

Within its engineering services business, the Group operates through various lines of business, mainly in the oil and gas, power and infrastructure sectors.

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

The companies that make up the Group close their financial year on 31 December.

The annual accounts of Técnicas Reunidas, S.A. (Parent) and the consolidated annual accounts of Técnicas Reunidas, S.A. and subsidiaries for 2019 were authorised for issue by the Board of Directors on 26 February 2020 and approved by the shareholders at the Annual General Meeting held on 25 June 2020.

These interim condensed consolidated financial statements (the “condensed financial statements” or “interim financial statements”) were prepared and authorised for issue by the Board of Directors on 28 July 2020. These interim financial statements have been subject to limited review but have not been audited.

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

2. Basis of presentation

2.1. General information

These interim financial statements for the six-month period ended 30 June 2020 have been prepared in accordance with IAS 34 “Interim Financial Reporting” and, therefore, do not include all the information that would be required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union; the accompanying interim financial statements should therefore be read together with the Group’s consolidated annual accounts for the year ended 31 December 2019, prepared in accordance with International Financial Reporting Standards adopted by the European Union (EU-IFRSs).

2.2. Comparative information

For comparative purposes, the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows as at 30 June 2020 are presented with information relating to the six-month period ended 30 June 2019 and the interim condensed consolidated balance sheet is presented with information relating to the year ended 31 December 2019.

2.3. Effects of COVID-19 on the Company’s activity

The appearance of the coronavirus (COVID-19) is affecting economic and financial markets. The challenges and uncertainties associated with the absence of medical treatment and possible outbreaks complicate the assessment of the performance of the economy in general and the oil and gas sector in particular.

While the state of emergency was in effect, the Group, in addition to prioritising the health protection of its employees, developed a set of activities aimed at strengthening its business and liquidity.

This basically includes the implementation of the efficiency plan that it had been developing since 2019 and the replacement on maturity of the current syndicated financing by another financing agreement with repayment terms of over three years.

With the information available, the Group assessed the main impacts of the pandemic on these interim condensed consolidated financial statements, which are described below:

Operational risk

The Group maintains the backlog awarded in recent years. None of the EPC projects in this backlog have been cancelled. However, as of the date of authorisation for issue of these financial statements, the coronavirus crisis is temporarily affecting the Group’s operations. In general, project performance has slowed down, especially in the procurement and construction phases, and some projects have been rescheduled at the request of customers, extending their execution time.

The uncertainty inherent in the situation makes it impossible to predict the impact of similar decisions being taken by our customers for other projects. Geographical diversification, constant communication with our customers and suppliers, and legal and contractual mechanisms to offset the effects of significant changes in contracts allow us to mitigate, but not eliminate, the associated risks.

Likewise, there was a direct impact on additional costs attributable to the effect of COVID-19, with EUR 71,400 thousand recognised at 30 June 2020, of which EUR 25,900 thousand are expected to be recovered from the respective customers. In addition, impairment losses have been recognised on two projects in the energy division due to operational difficulties aggravated by the effects of the pandemic (see Notes 7 and 13).

The volume of awards expected over the next 12 months is limited, although the Group’s directors and management consider that such delays are temporary and will not mean the cancellation of opportunities in progress.

Liquidity risk

The coronavirus crisis affects the flow of collections and payments. In this regard, the Group’s net cash was reduced by EUR 216 million in the first six months of 2020, as a result of delays in payment by certain customers and the rescheduling of certain projects. In addition, operational risks have an impact on cash flow.

As indicated in Note 5.2, the Group monitors its liquidity needs in order to ensure that it has the funds necessary to cover its operating requirements. In this regard, the Group has strengthened its financial position through the agreement signed on 26 June 2020, which takes effect after the reporting date of the interim condensed consolidated financial statements (see Note 11 d).

In accordance with the requirements of the ESMA for these interim financial statements, the Group assessed the adequacy of its funds and the fulfilment of the financing terms for the next twelve months by applying the following assumptions:

- Gradual recovery of activity towards the end of 2020 and a sustained improvement in activity in 2021.
- Implementation of improvement plans and cost optimisation.
- Limited volume of new awards over the next twelve months and progress on the project in accordance with the schedules agreed with customers.

In addition, the Group considers that it could take extraordinary remedial action if there is a substantial adverse change in the assumptions described.

Valuation risk of on-balance-sheet assets and liabilities

There have been no cancellations of EPC projects included in the backlog, or significant increases in the risk of non-payment due to deterioration in the financial position of customers or in the assessment of expected losses due to the quality and solvency of the customer portfolio.

The Group has assessed the recoverability of the deferred tax assets based on the estimated medium- and long-term performance of operations, which did not change substantially due to the effect of COVID-19, and, therefore, it is not necessary to reduce the amount recognised at the date of these interim financial statements.

3. Accounting policies

Except as indicated below, the accounting policies applied are consistent with those applied in the 2019 consolidated annual accounts.

Accrued taxes on profit for the interim periods are calculated on the basis of the weighted average tax rate estimated by management that would be applicable to the expected total annual profit.

3.1. Standards, amendments and interpretations approved by the European Union and that enter into force on 1 January 2020.

- IFRS 3 (Amendment) – “Definition of a business”
- IAS 1 (Amendment) and IAS 8 (Amendment) – “Definition of materiality”
- IFRS 9 (Amendment), IFRS 7 (Amendment) and IAS 39 (Amendment) – “Interest rate benchmark reform”

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

3.2. Standards, amendments and interpretations of existing standards that cannot be adopted early or that have not been adopted by the European Union as of the date of this note:

At the date of authorisation for issue of these interim condensed consolidated financial statements, the IASB and the IFRS Interpretations Committee had issued the following standards, amendments and interpretations, which cannot be adopted early or have yet to be adopted by the European Union.

- IFRS 10 (Amendment) and IAS 28 (Amendment) – “Sale or contribution of assets between an investor and its associate or joint venture”
- IAS 16 (Amendment) – “Property, plant and equipment - Proceeds before intended use”
- IAS 37 (Amendment) – “Onerous contracts - Cost of fulfilling a contract”
- IFRS 3 (Amendment) – “Reference to the conceptual framework”
- IAS 1 (Amendment) – “Classification of liabilities as current or non-current”
- IFRS 17 – “Insurance contracts”
- IFRS 16 (Amendment) – “Covid-19 related rent concessions”
- IAS 41, Annual improvements to IFRSs, 2018-2020 Cycle (May 2020)
- IFRS 1, Annual improvements to IFRSs, 2018-2020 Cycle (May 2020)
- IFRS 9, Annual improvements to IFRSs, 2018-2020 Cycle (May 2020)
- IFRS 16, Annual improvements to IFRSs, 2018-2020 Cycle (May 2020)

The Group is currently analysing the impact that the new standards may have on the interim financial statements.

3.3. Changes in the scope of consolidation

The only change in the scope of consolidation in the six-month period ended 30 June 2020 was the exclusion of Construcción e Ingeniería FI, Ltda. as a result of its liquidation, a company that was 50% owned by Técnicas Reunidas Chile, S.A.

Técnicas Reunidas LLC, wholly owned by Técnicas Reunidas, S.A., and TR Alberta, 50% owned by Técnicas Reunidas, S.A. and Initec Plantas Industriales, S.A.U. were incorporated in the six-month period ended 30 June 2020.

4. Estimates

In preparing these interim financial statements, management has to make judgements, estimates and assumptions that may affect the application of the accounting policies and the amount of the assets, liabilities, income and expenses. The actual results may differ from these estimates.

When preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of uncertainty in estimates were the same as those applied in the consolidated annual accounts for the year ended 31 December 2019, with the exception of changes in estimates to determine the provision for income tax (see Note 8) and that indicated in Note 2.3.

5. Financial risk management

5.1. Financial risk factors

The Group's activities are exposed to a variety of financial risks: market risk (including foreign currency risk, interest rate cash flow risk and price risk), credit risk and liquidity risk.

The interim financial statements do not include all the information and disclosures on financial risk management required for the consolidated annual accounts and should therefore be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2019 (see Notes 2 and 3).

There has been no change in the risk management policy since the reporting date of the previous year.

5.2. Liquidity risk

Cash flow forecasts are carried out for Group companies and the Group's aggregate financial activities. Group management monitors forecasts of the Group's liquidity needs to ensure that it has sufficient cash to meet operating needs while ensuring that it has unused credit facilities available.

5.3. Estimate of fair value

For financial instruments that are measured at fair value in the interim condensed consolidated balance sheet, the valuations are broken down by level in accordance with the following hierarchy:

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

The tables below present the Group's assets and liabilities measured at fair value:

At 30 June 2020	Level 1	Level 2	Level 3	Total balance
Assets				
Financial assets at fair value through other comprehensive income	-	264	-	264
Financial assets at fair value through profit or loss	62,027	-	-	62,027
Hedging derivatives	-	12,642	-	12,642

Total assets	62,027	12,906	-	74,933
Liabilities				
Hedging derivatives	-	44,830	-	44,830
Total liabilities	-	44,830	-	44,830
At 31 December 2019				
	Level 1	Level 2	Level 3	Total balance
Assets				
Financial assets at fair value through other comprehensive income	-	264	-	264
Financial assets at fair value through profit or loss	65,135	-	-	65,135
Hedging derivatives	-	6,846	-	6,846
Total assets	65,135	7,110	-	72,245
Liabilities				
Hedging derivatives	-	56,491	-	56,491
Total liabilities	-	56,491	-	56,491

“Financial assets at fair value through profit or loss” includes the Group’s investments in fixed-income and equity securities.

a) Level 1 financial instruments

The fair value of the financial instruments traded in active markets is based on the market prices at the reporting date. A market is considered to be active if quoted prices are readily and regularly available from a stock exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. The quoted market price used for the financial assets held by the Group is the current bid price. These instruments are included in level 1.

b) Level 2 financial instruments

The fair value of financial instruments that are not listed on an active market (e.g. OTC derivatives) is determined using valuation techniques. These valuation techniques maximise the use of available observable data inputs and rely as little as possible on entity-specific estimates. If all the significant inputs required to calculate an instrument’s fair value are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of the interest rate swaps is calculated as the present value of the estimated future cash flows based on estimated interest rate curves.
- The fair value of foreign currency futures is determined using the future exchange rates on the balance sheet date, discounted to their present value.
- Other techniques, such as discounted cash flow analysis, are used to determine the fair value of the remaining financial instruments.

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

Due to the nature of the Group’s portfolio, the application of credit risk mainly affects the portfolio of financial derivatives designated as cash flow hedges, given that they are measured at fair value.

These instruments are unique in that the expected cash flows are not pre-determined; rather, they vary based on the underlying financial variable, so the determination of the credit risk to be applied, i.e., the Company’s own credit risk or that of the counterparty, is not intuitive, but rather depends on market conditions at any given time and must therefore be quantified using measurement models.

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

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

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

The effect of credit risk on the value of currency and commodity forwards will depend on future settlements. If the settlement is favourable for the Group, a credit spread is incorporated for the counterparty to quantify the probability of default upon maturity; otherwise, if the settlement is expected to be negative for the Group, the credit risk is applied to the Group's final settlement. To determine whether or not the settlement of the forwards will be favourable for the Group, a stochastic model is used to simulate the derivative's behaviour in different scenarios using complex mathematical models that consider the volatility of the underlying asset and applying the resulting credit spread to each simulation.

There were no significant changes in economic or business circumstances that significantly affected the fair value of the Group's financial assets and financial liabilities either in the first half of 2020 or in the first half of 2019.

No financial assets were reclassified or transferred between levels in the first half of 2020 or in the first half of 2019.

6. Seasonal nature of operations

The Group's activity is not seasonal in nature.

7. Operating segment reporting

The Group classifies its operating segments as follows:

- Oil and Gas
- Power
- Infrastructure and Industry

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

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

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

In the infrastructure and industry segment, the Group carries out projects in multiple arenas, such as airports, industrial facilities, desalination and water treatment plants as well as initiatives for public authorities and other bodies, such as management of car parks, public spaces and municipal sports centres.

The overhead costs relating to the corporate headquarters and functional departments that do not earn revenue or that may earn revenue that is only incidental to the activities of the Group and that, in any case, cannot be allocated to any operating segment or be included as part of an operating segment, as indicated in IFRS 8.6, are classified as "Unallocated".

The operating segment analysis is based on an assessment of the segments' operating profit, adjusted for unallocated Group overheads. In addition, the Group manages financing activities and the effect of income tax.

Consequently, finance income and costs and income tax have not been allocated by segment.

No sales were made between the various operating segments in the periods presented.

The detail, by business segment, of the revenue and profit or loss for the six-month periods ended on 30 June 2020 and 2019 are as follows:

Six-month period ended 30 June 2020					
	Oil and Gas	Power	Infrastructure and Industry	Unallocated	Group
Revenue	1,937,997	127,267	43,454	-	2,108,718
Profit/(Loss) from operations	238,893	(148,202)	(2,356)	(55,265)	33,070
Net financial loss	-	-	-	(12,492)	(12,492)
Share in profit/(loss) of associates	-	-	-	(491)	(491)
Profit/(Loss) before tax	238,893	(148,202)	(2,356)	(68,249)	20,087
Income tax	-	-	-	(5,992)	(5,992)
Profit/(Loss) for the period	238,893	(148,202)	(2,356)	(74,241)	14,095
Six-month period ended 30 June 2019					
	Oil and Gas	Power	Infrastructure and Industry	Unallocated	Group
Revenue	2,027,136	144,378	45,141	-	2,216,655
Profit/(Loss) from operations	94,689	(14,857)	(1,762)	(50,693)	27,377
Net financial loss	-	-	-	(6,264)	(6,264)
Share in profit/(loss) of associates	-	-	-	(1,815)	(1,815)
Profit/(Loss) before tax	94,689	(14,857)	(1,762)	(58,772)	19,298
Income tax	-	-	-	(5,715)	(5,715)
Profit/(Loss) for the period	94,689	(14,857)	(1,762)	(64,487)	13,583

The losses in the energy segment were due to impairment losses incurred on a project carried out in the United Kingdom, which was significantly influenced by COVID-19 (Note 2.3) and by various economic circumstances related the country's situation, and to provisions recognised in relation to the completion of a project in Finland (Note 13).

Revenue by geographical area for the six-month periods ended on 30 June 2020 and 2019 are as follows:

	Six-month period ended 30 June	
	2020	2019
Spain	53,988	49,891
Middle East	1,598,433	1,859,560
America	161,316	123,388
Asia	233,123	70,148
Europe	31,670	54,585
Mediterranean	30,188	59,083
Total	2,108,718	2,216,655

Income from the Middle East relates mainly to operations in Saudi Arabia, Abu Dhabi, Kuwait, Bahrain and Oman; in America, income comes primarily from operations in Canada, Peru and Mexico; in Asia this income is from operations in Malaysia, India and Singapore; in Europe the operations were focused primarily in Russia, Poland, Finland and the UK; and in the Mediterranean operations were focused basically on Turkey and Algeria, as well as other countries.

There were no changes in the allocations of assets and liabilities by segment during the first half of 2020 and 2019 compared with December 2019 and 2018, most of which corresponded to the Oil and Gas segment (see Note 5 to the consolidated annual accounts at 31 December 2019).

8. Income tax

The income tax expense is recognised based on management's estimate of the expected weighted average tax rate for the full financial year. The estimated average annual tax rate for the year ended 31 December 2019 is 29.83% (the effective tax rate for the year ended 31 December 2019, without including the provision for assessments, was 18.6%).

9. Property, plant and equipment, goodwill and other intangible assets

The changes in the first six months of 2020 and 2019 are as follows:

	Thousands of euros		
	Intangible assets		Property, plant and equipment
	Goodwill	Other intangible assets	
Cost			
Balances at 1 January 2020	1,242	95,120	166,899
Additions	-	252	6,533
Disposals and other reductions	-	-	(4,359)
Translation differences	-	(24)	(1,688)
Balances at 30 June 2020	1,242	95,348	167,385
Accumulated depreciation and amortisation			
Balances at 1 January 2020	-	41,959	115,273
Disposals and other reductions	-	-	(2,840)
Charge for the year	-	1,201	5,824
Translation differences	-	(6)	(1,410)
Balances at 30 June 2020	-	43,154	116,847
Net assets			
Balances at 1 January 2020	1,242	53,161	51,626
Balances at 30 June 2020	1,242	52,194	50,538

	Thousands of euros		
	Intangible assets		Property, plant and equipment
	Goodwill	Other intangible assets	
Cost			
Balances at 1 January 2019	1,242	93,622	131,117
Additions	-	242	3,625
Disposals and other reductions	-	-	(133)
Translation differences	-	10	176
Balances at 30 June 2019	1,242	93,874	134,785
Accumulated depreciation and amortisation			
Balances at 1 January 2019	-	38,556	96,559
Disposals and other reductions	-	-	(58)
Charge for the year	-	1,183	5,185
Translation differences	-	9	184
Balances at 30 June 2019	-	39,748	101,870
Net assets			
Balances at 1 January 2019	1,242	55,066	34,558
Balances at 30 June 2019	1,242	54,126	32,915

At 30 June 2020 and 31 December 2019, the Group did not have any significant commitments to purchase non-current assets.

During the first six months of 2020 and 2019, there were no circumstances indicating the possible impairment of goodwill.

10. Rights of use on leased assets

The changes in the first six months of 2020 and 2019 are as follows:

	Offices	Housing	Vehicles	Total
Cost				
1 January 2020	52,077	7,995	10,833	70,905
New contracts	86	3,794	2,465	6,345
Changes due to amendments to existing contracts	784	143	211	1,138
Disposals	(2,068)	-	-	(2,068)
Translation differences	(237)	(115)	(84)	(436)
Ending balance	50,642	11,817	13,425	75,884
Amortisation charge				
1 January 2020	19,022	3,307	6,103	28,432
Charge for the year	9,182	2,686	4,164	16,032
Translation differences	(197)	(70)	(110)	(377)
Ending balance	28,007	5,923	10,157	44,087
Balances at 1 January 2020	33,055	4,688	4,730	42,473
Net balance at 30 June 2020	22,635	5,894	3,268	31,797
Cost				
1 January 2019	49,232	3,208	6,009	58,449
New contracts	-	3,526	-	3,526
Changes due to amendments to existing contracts	(933)	-	-	(933)
Translation differences	19	7	9	35
Ending balance	48,318	6,741	6,018	61,077
Amortisation charge				
1 January 2019	-	-	-	-
Charge for the year	9,165	1,372	2,099	12,636
Translation differences	(10)	(8)	(6)	(24)
Ending balance	9,155	1,364	2,093	12,612
Balances at 1 January 2019	49,232	3,208	6,009	58,449
Net balance at 30 June 2019	39,163	5,377	3,925	48,465

The amounts paid in relation to rights of use on leased assets at 30 June 2020 amounted to EUR 16,053 thousand (EUR 28,544 thousand at 31 December 2019).

At 30 June 2020, the borrowings associated with the rights of use of leased assets amounted to EUR 32,740 (EUR 42,945 thousand at 31 December 2019) and the interest charged to the income statement amounted to EUR 492 thousand (EUR 939 thousand at 31 December 2019).

11. Financial instruments

a) Financial assets

The detail, by nature and measurement category, of the financial assets (excluding cash and cash equivalents) at 30 June 2020 and 31 December 2019 are as follows:

	At 30 June 2020			
Financial assets:	Financial assets at fair value through profit or loss	Financial assets through other comprehensive income	Amortised cost	Hedging derivatives
Nature / Category				
Derivatives	-	-	-	146
Accounts receivable and other financial assets	-	264	92,719	-
Long-term/non-current	-	264	92,719	146
Derivatives	-	-	-	12,496
Trade and other receivables	-	-	2,975,621	-
Accounts receivable and other financial assets	62,027	-	11,835	-
Short-term/current	62,027	-	2,987,456	12,496
Total financial assets	62,027	264	3,080,175	12,642
	At 31 December 2019			
Financial assets:	Financial assets at fair value through profit or loss	Financial assets through other comprehensive income	Amortised cost	Hedging derivatives
Nature / Category				
Derivatives	-	-	-	295
Accounts receivable and other financial assets	-	264	91,780	-
Long-term/non-current	-	264	91,780	295
Derivatives	-	-	-	6,551
Trade and other receivables	-	-	2,672,058	-
Accounts receivable and other financial assets	65,135	-	11,766	-
Short-term/current	65,135	-	2,683,824	6,551
Total financial assets	65,135	264	2,775,604	6,846

The carrying amount of the financial instruments measured at amortised cost is similar to their fair value.

a.1) - Impairment losses on financial assets

The changes in the first half of 2020 and 2019 in the balance of provisions for impairment of the assets included under "Trade and other receivables" is shown below:

	At 30 June	
	2020	2019
Beginning balance	31,970	31,299
Impairment losses charged to income	1,172	192
Amounts used	-	-
Ending balance	33,142	31,491

The remaining financial assets were not impaired in the first half of 2020 and 2019.

a.2) - Trade and other receivables

Trade receivables include EUR 2,276,002 thousand (EUR 1,960,475 thousand at 31 December 2019) relating to completed work yet to be billed, which is calculated in accordance with the criteria established in Note 2.19 to the consolidated annual accounts for the year ended 31 December 2019.

b) Financial liabilities

The detail, by nature and measurement category, of the financial liabilities at 30 June 2020 and 31 December 2019 are as follows:

Financial liabilities	At 30 June 2020		At 31 December 2019	
	Accounts payable	Hedging derivatives	Accounts payable	Hedging derivatives
Nature / Category				
Borrowings	214,590	-	296,503	-
Borrowings associated with rights of use of leased assets	10,980	-	17,678	-
Derivatives	-	4,048	-	2,928
Other accounts payable	1,424	-	1,527	-
Non-current payables/Non-current financial liabilities	226,994	4,048	315,708	2,928
Borrowings	654,566	-	285,754	-
Borrowings associated with rights of use of leased assets	21,760	-	25,267	-
Derivatives	-	40,782	-	53,563
Trade payables	3,202,492	-	2,978,633	-
Other accounts payable	14,750	-	19,281	-
Current payables/Current financial liabilities	3,893,568	40,782	3,308,935	53,563
Total financial liabilities	4,120,562	44,830	3,624,643	56,491

The carrying amount of the financial instruments measured at amortised cost is similar to their fair value.

c) Hedging financial derivatives

Note 2.20 to the Group's consolidated annual accounts for the year ended 31 December 2019 details the criteria used by the Group for hedging activities. There have been no changes in these criteria during the first half of 2020.

The changes in current and non-current derivative financial instruments in the first half of 2020 relate to the changes due to the valuation of derivative financial instruments carried out by the Group, and to the arrangements and settlements thereof during that period. There have been no changes in valuation techniques in estimating the fair value of derivative financial instruments. These valuation techniques are those customarily used in the market; the procedure consists of calculating the fair value by discounting the future cash flows associated with them based on the interest rates, exchange rates, volatilities and forward price curves in force on the closing dates in accordance with the reports of financial experts.

During the first half of 2020 and 2019, there were no significant inefficiencies due to foreign currency hedges.

d) Borrowed funds

The details of the borrowed funds at 30 June 2020 and at 31 December 2019 are as follows:

	<u>At 30 June 2020</u>	<u>At 31 December 2019</u>
Non-current		
Borrowings	214,590	296,503
	214,590	296,503
Current		
Borrowings	654,566	285,754
	654,566	285,754
Total borrowings	869,156	582,257

At the end of June 2020, the Group refinanced the syndicated loans amounting to EUR 437 million. This refinancing consists of a loan guaranteed by the ICO for an amount of EUR 244 million (COVID-19 ICO line), as well as a loan of EUR 127 million and a credit facility in the amount of EUR 66 million, both backed by CESCE. This financing that is made available to the Group requires a consolidated net financial debt/EBITDA ratio that is less than or equal to 2.5. These lines are effective from 8 July 2020 and 24 July 2020, respectively.

Therefore, of the EUR 433 million in syndicated short-term loans at 30 June 2020, the maturity date has been extended by 4.5 years from the date of entry into force of the refinancing agreements for EUR 371 million. The agreements will enter into force when a drawdown is made, which is expected to take place in September and October 2020 and March 2021. The remaining EUR 66 million corresponding to the CESCE loan will mature in March 2021.

The agreements for the two syndicated loans held by the Group and the German promissory note financing in force at 30 June 2020 require that the net financial debt/EBITDA ratio be less than or equal to 3.

The Group's undrawn credit facilities are as follows:

	Thousands of euros	
	30 June 2020	31 December 2019
Floating rate:		
- maturing within one year	14,028	294,963
- maturing in more than one year	14,253	120,050
	28,281	415,013

12. Equity

Share capital

A 30 June 2020 and 31 December 2019, the total authorised number of ordinary shares was 55,896,000 shares, with a par value of EUR 0.10 each. All of the shares issued are fully paid and carry the same voting and dividend rights.

Treasury shares at 30 June 2020 represent 3.94% of the Parent's share capital (3.92% at 31 December 2019) for a total of 2,207,277 shares (2,193,424 shares at 31 December 2018).

The shareholders at the Parent's Annual General Meeting held on 26 June 2019 agreed to authorise the Board of Directors to acquire treasury shares up to the maximum number of shares established by law, at a price that may not be more than 5% higher or lower than the weighted average share price on the day the purchase is made and with a maximum daily volume that may not be more than 15% of the average daily volume traded on the market for orders of the regulated market or the Spanish multilateral trading system over the previous thirty sessions.

The Parent entered into a liquidity agreement with Santander Investment Bolsa, Sociedad de Valores, S.A.U. The framework of this agreement is the Spanish stock exchanges and its purpose is to create added liquidity for transactions. The agreement was signed for a term of one year, which was renewed on 10 July 2017 in accordance with CNMV Circular 1/2017, of 26 April, and was extended for additional years on 10 July 2019. A total of 74,500 shares were allocated to the securities account associated with the agreement and EUR 2,537 thousand were allocated to the cash account associated with the agreement.

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

Dividends declared and paid by the Parent

No dividends have been declared or paid in the first half of 2020 or 2019.

Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the holders of ordinary equity instruments of the Parent by the weighted average number of ordinary shares outstanding during the period. Details of earnings per share for the six-month periods ended on 30 June 2020 and 2019 are as follows:

	2020 (6 months)	2019 (6 months)
Profit for the period attributable to ordinary equity holders of the entity (thousands of euros)	11,691	13,356
Weighted average number of ordinary shares outstanding	53,740,650	53,759,867
Earnings per share of the profit attributable to ordinary equity holders of the entity (EUR per share)	0.22	0.25

The Parent has no issues of financial instruments that could dilute earnings per share.

13. Provisions for contingencies and charges

Note 22 to the Group's consolidated annual accounts for the year ended 31 December 2019 details the criteria used by the Group for establishing these provisions. There have been no changes in these criteria during the first half of 2020. The changes in non-current provisions during the six-month periods ended 30 June 2020 and 30 June 2019 are shown below:

a) Provisions for contingencies and charges - Non-current

DESCRIPTION	Six-month period ended 30 June 2020			
	Provision for estimated project loss	Provision for infrastructure	Other provisions	Total provisions for contingencies and charges
Balance at 01/01/2020	2,588	4,000	27,707	34,295
Reversals/amounts used	-	-	-	-
Period provisions	18,075	-	-	18,075
Balance at 30/06/2020	20,663	4,000	27,707	52,370

DESCRIPTION	Six-month period ended 30 June 2019			
	Provision for estimated project loss	Provision for infrastructure	Other provisions	Total provisions for contingencies and charges
Balance at 01/01/2019	3,432	4,000	32,207	39,639
Reversals/amounts used	-	-	-	-
Transfers	-	-	(20,000)	(20,000)
Period provisions	-	-	7,539	7,539
Balance at 30/06/2019	3,432	4,000	19,746	27,178

Provision for estimated project loss

In compliance with that established in IAS 37, the Group recognises provisions to cover estimated future losses on projects currently in progress.

Provision for infrastructure

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

Other provisions

This line item relates to provisions arranged to cover other contingencies and charges, including payment obligations to project partners, provisions for probable risks, provisions for other non-current payments to be made.

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

b) Provisions for contingencies and charges - Current

	30 June 2020	30 June 2019
Beginning balance	43,642	29,863
Reversals/amounts used	-	-
Period provisions	28,782	343
Ending balance	72,424	30,206

Current provisions relate to the amount arising from the Sines lawsuit established in the arbitral award mentioned in Note 22.1 to the consolidated annual accounts at 31 December 2019, to estimated construction losses and to provisions related to the Finnish project amounting to approximately EUR 40 million, which were paid after the end of the reporting date of this interim period.

14. Related party transactions

Related party transactions, which are part of the Group's ordinary business, during the first six months of 2020 and 2019 are as follows:

- Transactions with shareholders of the Parent

During the first six months of 2020 and 2019, the Group did not carry out any transactions with any of its main shareholders.

- Transactions with directors and executives of the Parent and entities related to them

No transactions were performed with the Company's directors during the six-month period ended 30 June 2020, except as detailed below and in Note 15:

- Transactions with Banco Sabadell:

	Thousands of euros	
Thousands of euros	30 June 2020	30 June 2019
Finance costs	134	6
Finance income	10	17
Thousands of euros		
Credit facilities	10,000	80,000
Drawn balances	5,000	-
Guarantee line	77,000	57,000
Used guarantees	39,224	54,541
Foreign exchange hedge	-	2,109

The Group also had current accounts in euros and in foreign currencies, which were necessary to carry out its ordinary business transactions. At 30 June 2020, the equivalent amount in current accounts and deposits totalled EUR 6,825 thousand (2019: EUR 15,284 thousand).

During the six-month periods ended 30 June 2020 and 30 June 2019, transactions amounting to EUR 152 thousand and EUR 151 thousand, respectively, were carried out with the Company's directors.

Note 15 includes information related to the remuneration paid to the directors of Técnicas Reunidas, S.A.

- Transactions with associates

These refer to transactions carried out with associates for the portion not eliminated in the consolidation process. The detail of these transactions is as follows:

	Thousands of euros	
	First six months 2020	First six months 2019
Services received	-	2,634
Services rendered	94	9,302

15. Remuneration and other benefits paid to the Parent's Board of Directors and senior executives

a) Remuneration of the Board of Directors

The details of the remuneration and benefits received by Board members of the Parent for the six-month periods ended 30 June 2020 and 2019 are as follows:

	Thousands of euros	
	30 June 2020	30 June 2019
Type of remuneration		
Fixed remuneration	707	707
Variable remuneration	1,100	660
Attendance fees	897	943
Other services	152	151
Total:	2,856	2,461
Other benefits		
Life insurance premiums	20	20
Total other benefits:	20	20

The Group also has an annual payment commitment of EUR 145 thousand in 2020 and EUR 135 thousand in 2019 for third-party liability insurance to managers and directors.

During the first six months of 2020 and 2019, no advances were granted to members of the Board of Directors.

b) Remuneration of senior executives

The total remuneration paid to senior executives for the six-month period ended 30 June 2020 amounts to EUR 2,900 thousand (30 June 2019: EUR 3,475 thousand).

During the first six months of 2020, advances and loans amounting to EUR 6 thousand were granted to senior executives (30 June 2019: EUR 142 thousand).

No other types of remuneration were accrued during the first six months of 2020 or 2019.

16. Average headcount

The detail, by category and gender, of the Group's average headcount for the first six months of 2020 and 2019 is as follows:

Average headcount for the six-month period

	2020			2019		
	Men	Women	Total	Men	Women	Total
Executive directors and senior executives	11	2	13	11	2	13
Graduates, line personnel and clerical staff	5,943	3,240	9,183	5,874	3,202	9,076
Non-graduates/Unqualified staff	53	1	54	52	1	53
Sales staff	45	16	61	44	16	60
	6,052	3,259	9,311	5,981	3,221	9,202

The average headcount at 30 June 2020 included 834 subcontracted employees (at 30 June 2019: 735 employees).

The average number of employees with a disability equal to or greater than 33% during the six-month periods ended 30 June 2020 and 30 June 2019 by the companies included in the Group was 36 and 34 employees, respectively.

17. Other information

- Contingencies and guarantees provided

Note 29 to the consolidated annual accounts for the year ended 31 December 2019 includes information on the contingencies and guarantees provided at that date.

At 30 June 2020, the Group had provided guarantees to third parties amounting to EUR 5,916,591 thousand (31 December 2019: EUR 5,861,288 thousand).

The total guarantees provided include syndicated guarantee lines amounting to EUR 709,472 thousand (31 December 2019: EUR 709,316 thousand) that are subject to certain covenants, compliance with which was exempted at 30 June 2020. The Parent's directors expect that the ratios or covenants included in the syndicated guarantee contracts will be met at the end of the next financial year.

Group management considers that the provisions recognised in these interim financial statements at 30 June 2020 reasonably cover the risks of litigation, arbitration and claims, and that additional liabilities are not expected to arise.

In relation to the tax audits mentioned in Note 27 to the consolidated annual accounts for the year ended on 31 December 2019, guarantees have been presented before the tax authorities in an amount of EUR 157 million for the tax payable and EUR 33 million for late-payment interest.

The Group is party to certain judicial and arbitration disputes, framed in the closure process of the projects, with customers and suppliers. Based on the opinion of the Group's legal advisers, using the information available, the Parent considers that the outcome thereof will not have a significant influence on the Group's equity.

18. Events after the reporting date

From the reporting date of the six-month interim period ended 30 June 2020 to the date of authorisation for issue of these interim condensed consolidated financial statements, no significant events have taken place that were not mentioned in the notes to the financial statements.

INTERIM CONSOLIDATED DIRECTORS' REPORT FIRST HALF OF 2020

1. Business performance

1.1 Business performance in the first half of 2020

The Técnicas Reunidas Group ("TR" or "the Group") achieved total sales of EUR 2,108 million in the first half of 2020, which was slightly lower than the first half of 2019, although it obtained an operating profit in the first half of 2020 of EUR 33 million, approximately 21% higher than in the first half of the previous year.

The appearance of the coronavirus COVID-19 in China at the end of 2019 and its global expansion to date, affecting all sectors of the economy and countries in different ways, creates challenges that affect the projects that TR has underway.

Taking into consideration the global scope of the TR Group's operations and the complexity of managing the pandemic, and in view of the lack of effective medical treatment against the virus to mitigate its effect and prevent its resurgence, the Group's sales have been affected when compared with 2019, as a result of certain generalised delays in projects, mainly in procurement and construction services, in view of the preventive measures applied in each case or the disruptions experienced in the supply chains of goods and services (see more detail in Note 18).

A total of 92% of all revenue came from the Oil and Gas activity, which still accounted for the largest portion of the Group's sales; 6% came from Power generation projects and 2% from the Infrastructures and Industries area.

In the first half of 2020, the Técnicas Reunidas Group added a large EPC project to its portfolio for Sonatrach: the base refinery in Haoud El Hamra, Hassi Messaoud (Algeria) valued at USD 3.7 billion, with TR's ownership interest exceeding USD 2 billion. The project is being carried out in a joint venture with Samsung Engineering Ltd. Co., and TR will be the leader of the consortium, with an interest of 55%.

This new refinery will have a processing capacity of five million tons per year. The scope of the project includes the execution of a completely new refinery, which includes all environmental processes and units, as well as the necessary ancillary services. The project includes some of the most advanced processing units, with technologies focused on deep conversion, clean fuel production and compliance with the strict environmental requirements.

The Hassi Messaoud project is one of the largest investments ever made in Algeria and forms part of an ambitious local government programme that aims to increase local production of energy products to meet growing local demand, while adapting petroleum products consumed internally to European environmental standards (Euro V). The design and execution of the plant will aim to meet the strictest environmental and safety standards on the market.

1.2 Business performance by areas in the first half of 2020

Each of TR's lines of business performed as follows:

Oil and Gas

Sales in the Oil and Gas area totalled EUR 1,938 million in the first half of 2020.

In the refining and petrochemicals area, the projects underway with the greatest progress in this period were in the downstream area: the Duqm plant for DRPIC in Oman, the conversion project for Bapco in Bahrain, Ras Tanura clean fuels for Saudi Aramco in Saudi Arabia, and the project for ExxonMobil in Singapore.

In the upstream and gas area, the projects underway with the greatest progress in this period were: the Harad project for Saudi Aramco in Saudi Arabia, the ADGAS project for ADNOC LNG and the Buhasa project for ADNOC ONSHORE in the United Arab Emirates.

Power, infrastructure and industry

Sales in the Power, Infrastructure and Industries area totalled EUR 127 million in the first half of 2020. The execution of the projects is particularly complex due to the impact of the Covid. Impairment losses were recognised on a project carried out in the United Kingdom, which was significantly influenced by COVID-19 and by various economic circumstances related to the country's situation, and by provisions recognised in relation to the completion of a project in Finland.

2. Main risks and uncertainties for the second half of 2020

The ongoing impact of the coronavirus on the economy, together with the absence of effective medical treatment in the short and medium term, has a significant effect on the overall performance of the economy, the price of crude oil and our business activity (see Note 2.3 to the interim financial statements for further information). The various geopolitical conflicts, such as the sanctions against Iran or the trade tensions between the United States and China, condition the general situation of the Oil and Gas market.

TR's business activities are also subject to various risks specific to the sector, such as the volatility of the foreign exchange market, the volatility of the commodity prices, which impacts equipment and supply prices, the capacity of its suppliers to meet orders, new competitors emerging on the market, and the availability of engineering, construction and assembly resources.

Lastly, against the backdrop of COVID-19, there is significant uncertainty with regard to our customers' decision-making, both in relation to the investment process and the execution process.

In these circumstances, TR is in the final stages of construction or delivering numerous projects, a time at which numerous agreements are formally arranged with customers and suppliers

Accordingly, Técnicas Reunidas is committed to risk management throughout the progress of the projects underway, whether the projects are just starting, will be delivered this year, or are still in the guarantee phase.

3. Alternative Performance Measures

Following the European Securities and Markets Authority (ESMA) guidelines on Alternative Performance Measures (APMs), Group management considers that certain APMs provide useful additional financial information that should be considered when assessing their performance.

Management uses these APMs when making financial, operating and planning decisions and to assess the Group's performance. Management presents the following APMs that it considers useful and appropriate for investor decision-making and that are most reliable about the Group's performance.

EBITDA

EBITDA (“Earnings before interest, taxes, depreciation and amortisation”): Management uses EBITDA as an indicator of the Group’s capacity to generate profits, considering only its productive activity, eliminating amortisation and depreciation, as well as the effect of financial results and income tax. It is calculated by deducting the depreciation and amortisation expense and charges for impairment losses for the period from operating profit.

		Millions of euros	
		Six-month period ended 30 June	
		2020	2019
Revenue	Sales and other income	2,110.3	2,219.7
Operating expenses	Procurement costs, staff costs, other operating expenses, depreciation and amortisation, and impairment	(2,077.2)	(2,192.3)
Profit from operations	Income - Operating expenses	33.1	27.4
Depreciation and amortisation charge and impairment	Depreciation, amortisation and impairment	23.1	19.0
EBITDA	Profit from operations, excluding depreciation and amortisation	56.2	46.4

Group management confirms that there has been no change in the definition, reconciliation or use of this indicator with regard to that used in the previous year, other than as a result of the application of IFRS 16.

EBIT (“Earnings before interest and taxes”): is an indicator of the Group’s operating profit without taking into account financial or tax results. Management uses this indicator as a complement to EBITDA in comparison with other companies in the sector. EBIT is equivalent to “profit from operations”, and was calculated as follows:

		Millions of euros	
		Six-month period ended 30 June	
		2020	2019
EBITDA	Profit from operations, excluding depreciation and amortisation	56.2	46.4
Depreciation and amortisation charge and impairment	Depreciation, amortisation and impairment	(23.1)	(19.0)
EBIT	Profit from operations	33.1	27.4

Group management confirms that there has been no change in the definition, reconciliation or use of this indicator with regard to that used in the previous year, other than as a result of the application of IFRS 16.

Net cash. Net cash is the alternative performance measure used by management to measure the Group's level of liquidity. It is calculated as the difference between "cash and cash equivalents" plus "financial assets at fair value through profit or loss" and "borrowings" (excluding "borrowings associated with rights of use of leased assets"). Cash and cash equivalents include cash on hand, demand deposits in banks and other short-term highly liquid investments originally maturing within three months or less. It has been calculated as follows:

		Millions of euros	
		At 30 June 2020 (unaudited)	At 31 December 2019
Cash and cash equivalents	Cash on hand, demand deposits in banks and other short-term highly liquid investments maturing within three months or less.	961.6	887.8
Financial assets at fair value	Financial assets at fair value through profit or loss	62.0	65.1
Borrowings	Non-current and current bank borrowings	(869.2)	(582.3)
Net cash	Cash and cash equivalents, plus financial assets at fair value, less borrowings	154.4	370.6

Group management also confirms that there has been no change in the definition, reconciliation or use of this indicator with regard to that used in the previous year.