ANNUAL REPORT 2011

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CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.
AND DEPENDENT COMPANIES THAT MAKE UP THE CAF GROUP

Translation of a report originally issued in Spanish.
In the event of a discrepancy, the Spanish-language version prevails.

This publication,
which is also published in Basque, French, Spanish and German,
includes the legal documentation relating to CAF and Subsidiaries.

More information on CAF and its products,
together with the information required by law for shareholders and investors,
can be obtained on the website www.caf.net

# LETTER FROM THE CHAIRMAN

Dear Shareholders,

In 2011 we witnessed what was probably one of the most complex economic periods in recent decades. Whereas we had been expecting across-the-board recovery at world level, certain western economies, including that of Spain, once more showed some signs of contraction.

Fortunately, the CAF Group was able to handle this generally adverse climate appropriately and ended the year on a most satisfactory note. This Annual Report provides you with detailed information on our activities in 2011, from which I should like to highlight some of the most notable.

The main business indicators followed the upward trend of previous years. The Group's total sales volume stood at EUR 1,725.1 million, which represented 10% growth on 2010. Profit after tax also grew by 13% to stand at EUR 146.2 million, a percentage increase in line with that of EBITDA, which amounted to EUR 228.8 million. Cash flow also increased in 2011 and amounted to EUR 208.2 million. Furthermore, our backlog was worth EUR 5,035.9 million at year-end, an all-time high for the CAF Group, which will enable our activities to be carried on as usual.

On the basis of these results it has been proposed that a dividend payment of EUR 10.5 per share, in line with that of previous years, be submitted for the approval of the shareholders at the Annual General Meeting.

To a certain extent the Group's good performance is related to the favourable outlook of the railway line of business, due to its undeniable status as one of the most sustainable means of transport. Consequently, it was also achieved thanks to the investments that are still being made, to a greater or lesser extent in the different countries, by the various authorities and governments. However, our good performance is also the result of the efforts made by all the CAF Group professionals in conceiving, developing, building and marketing the most innovative and efficient solutions in this field of transport.

In 2011, for instance, we saw how OARIS, CAF's major contribution to the high-speed railway sector, embarked on a tight schedule of runs, which in a few months' time will enable it to be certified to travel at commercial speeds of 350 km/h, a necessary step before it can be marketed.

2011 was also the year in which trams of the URBOS range, equipped with the ACR energy system, started to run for the first time without using overhead catenary lines or ground cables. Instead, they recharge at innovative stations developed as part of the Group's technological programme. This solution will enable cities such as Seville, Zaragoza and Granada to dispense with catenary lines in stretches where this is desired.

Also worthy of note was the development of our suburban CIVITY platform, designed to provide service in any railway scenario, thanks to its great versatility as regards both its structure (three to eight carriages) and its traction (electric, diesel-electric, diesel-mechanical, diesel-hydraulic and dual). In view of these features and the differentiating advantage they represent, 2011 saw the commercial launch of CIVITY, which was successfully rewarded by our winning three contracts at international level. The first, which will be implemented in the Italian region of Friuli Venezia Giulia, envisages eight units which will be operated by Trenitalia, the Italian railway company. The second contract was entered into with the Montenegro state railway company. And lastly, in view of its strategic importance, particular mention should be made of the framework agreement to supply up to 400 units of the CIVITY range, entered into with the German railway company Deutsche Bahn.

Other significant contracts won in Europe in 2011 included the supply of 18 URBOS trams for the Hungarian city Debrecen, 16 trains for Metrorex (the Bucharest underground) and 6 more trains for the Istanbul underground, in addition to those commissioned under the previous contract.

As regards the South American market, CAF once more saw the trust placed in it by customers such as the Santiago de Chile underground, which awarded it a new order of 12 trains of 9 carriages each, and the Sao Paulo underground, for which a new contract for the supply of 26 six-carriage trains was entered into, thereby reinforcing CAF's position as leader of the Brazilian market. In the US a contract was executed with the city of Houston, Texas for the development and manufacture of 39 trams. This contract, which envisages several additional options, represents a further step forward taken by CAF in the attractive, albeit demanding, US market.

Lastly, the award of a contract for the supply of 57 metropolitan trains for Auckland, New Zealand, marks our entry into the active railway market of Oceania. This means that the CAF Group is now present in all continents, thereby reinforcing the international character of our activities.

All the foregoing has gone hand-in-hand with immense industrial activity, the purpose of which was none other than to respond in the most efficient manner possible to the growing technological and geographical complexity of our order book. As a result, in 2011 a total of 1,095 cars and 2,025 bogies were manufactured at the Group's factories as a whole, far exceeding the numbers produced in the recent past.

In line with the positive performance in vehicle design and manufacture activities, the upturn in the rolling stock and railway services lines of business was also notable, with record sales being achieved in both cases. Their relative weight as regards the Group's sales and backlog figures is also increasing.

Convinced that the future will be in the hands of those with cutting-edge technology, design and management capabilities, with the help of all the individuals who make up the CAF Group, we will continue to advance on the routes that will lead us to the new business opportunities that undoubtedly await us. To this end our mainstays will be technological development, the on-going internationalisation of our business and a constant drive to achieve operating efficiency.

The favourable outlook of the railway industry and the corporate results presented in this report constitute a solid point of departure for this venture. The dedication, efforts and commitment of all the professionals in the CAF Group, to whom I wish to convey my deepest gratitude, will doubtless enable us to meet the targets we have set.

I should also like to thank all our shareholders for the close interest and trust they have placed in us and in our projects.

Many thanks,

José María Baztarrica Garijo
Chairman and CEO

With more than one hundred years of history behind it, CAF is an international benchmark in the railway industry for its advanced technology and the quality of its products and customer service.

## MAIN LINES

### HIGH SPEED TRAINS

- High Speed Trains
- High Speed Trains and Variable Gauge Trains S-120 and S-121 (RENFE)
- High Speed Trains for the Madrid-Seville Line
- Shuttle Trains S-104 (RENFE)
- High-speed trains for Turkey

### INTERCITY TRAINS

- Tilting System ADR Trains
- Red Nacional de Ferrocarriles Españoles (RENFE)
- Diesel trains for Algeria
- Intercity, Push-Pull Service
- Trains for Saudi Arabia
- Sardinia diesel trains
- Northern Ireland trains
- US trains

### PASSENGER CARS

- Saloons and Luxury Lounge
- Sleeping Cars and Couchettes
- Restaurant and Cafeteria Cars

## CITY/SUBURBANS

### REGIONAL TRAINS

- Red Nacional de Ferrocarriles Españoles (RENFE)
- Eusko Trenbideak-Ferrocarriles Vascos (ET/FV)
- Ferrocarriles Españoles de Vía Estrecha (FEVE)
- Ferrocarrils de la Generalitat de Catalunya (FGC)
- Compañía Paulista de Trenes Metropolitanos (Brazil)
- Secretaría de Comunicaciones y Transportes (Mexico)
- Serveis Ferroviaris de Mallorca (SFM)
- Caminhos de Ferro Portugueses
- Finnish Railways (VR Ltd)
- Heathrow Airport Express (UK)
- Hong-Kong Airport Express
- Irish Rail
- Izban (Turkey)
- Northern Ireland Railways
- Northern Spirit (UK)
- Delhi airport
- Regione Autonoma Friuli Venezia Giulia (Italy)
- Companhia Brasileira de Trens Urbanos (Brazil)
- Montenegro
- Auckland (New Zealand)

### SUBWAY TRAINS

- Algiers
- Barcelona
- Bilbao
- Bucharest
- Brussels
- Caracas
- Istanbul
- Hong Kong
- Madrid
- Malaga
- Medellin
- Mexico
- New Delhi
- Palma (Mallorca)
- Rome
- Santiago de Chile
- São Paulo
- Seville
- Washington

### ARTICULATED LIGHT RAILWAY

- Amsterdam
- Buenos Aires
- Monterrey
- Pittsburgh
- Sacramento
- Valencia

### STREETCARS

- Antalya
- Belgrade
- Besançon
- Bilbao
- Cádiz-Chiclana
- Debrecen
- Edinburgh
- Stockholm
- Granada
- Houston (USA)
- Lisbon
- Nantes
- Seville
- Valencia
- Vélez-Málaga
- Vitoria
- Zaragoza

# 2011 DIRECTORS' REPORT OF THE CONSOLIDATED GROUP


# EARNINGS

The aggregates in 2011 were as follows:

- Profit attributable to the Parent after tax amounted to EUR 146,182 thousand, up approximately 13% on 2010, which stood at EUR 129,624 thousand.

- The depreciation and amortisation charge and impairment losses relating to non-current assets amounted to EUR 64,054 thousand which, added to the profit for the year before tax from continuing operations, generated a cash flow of EUR 207,921 thousand, representing an increase of approximately 2% on 2010, which amounted to EUR 204,207 thousand.

- EBITDA from continuing operations totalled EUR 228,837 thousand, up approximately 13% on 2010 (EUR 202,259 thousand).

- Revenue amounted to EUR 1,725,099 thousand in 2011, up 10% on 2010 (EUR 1,563,203 thousand).

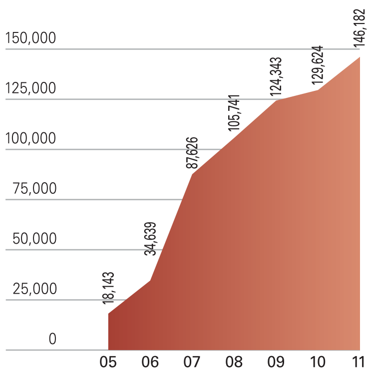
- The backlog amounted to EUR 5,035,940 thousand at 31 December 2011, up 11% on 2010 (EUR 4,518,903 thousand), and will enable the Group to continue its normal business activities.

- The proposal for the distribution of earnings is in line with the policy of prior years of strengthening the Company's equity. It is proposed to use EUR 35,995 thousand of the profit to pay dividends and to allocate EUR 55,668 thousand to voluntary reserves, giving rise to a gross value of EUR 10.5 per share.

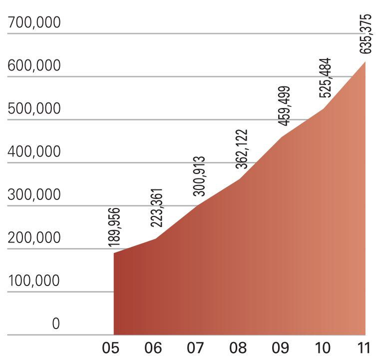
- If the proposed distribution of profit is approved, the profit allocated to reserves will raise the Group's equity to a total of EUR 635,375 thousand.

- Lastly, as required by law, CAF declares that neither it nor its subsidiaries purchased or held treasury shares in the course of 2011.

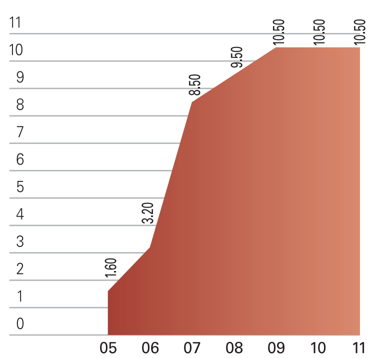
**Profit attributable to the Parent**
(thousand of euros)




**Groups shareholder's equity**
(thousand of euros)




**Evolution of dividends/shares**
(in euros)




# COMMERCIAL ACTIVITY

In 2011 the backlog reached a new high of more than EUR 5,000 million at year-end, up more than 11% on 2010.

In 2011, the OARIS platform, the CAF Group's contribution to the high-speed rail industry, entered the initial phase of its certification on achieving a speed of 300 km/h However, this speed be will exceeded in 2012 upon obtaining certification to operate at a commercial speed of 350 km/h.

This project adds to the tram projects in Seville and Zaragoza and those relating to the new Euskotren train units.

Since May 2010, Seville's new Urbos 3 tram model runs without overhead cables between the Archivo de Indias and Plaza Nueva stops, in the same way as its predecessor, the Urbos 2. The construction of the new tramway coincided with the completion of the process to dismantle the catenary in that section of the tramway layout, becoming the first commercial application of a catenary-free tramway powered by the Rapid Charge Accumulator (ACR) system.

In Zaragoza the tram service was successfully inaugurated, for which CAF not only supplied the Urbos 3 trams but was also in charge of the electrification of the tramway system. The expansion of the current tramway layout in Zaragoza will include catenary-free sections incorporating the ACR device and specific elements for recharging it at various stops along the route. The aforementioned specific elements form part of the electricity supply provided by CAF as the supplier of the tramway system's electrification.

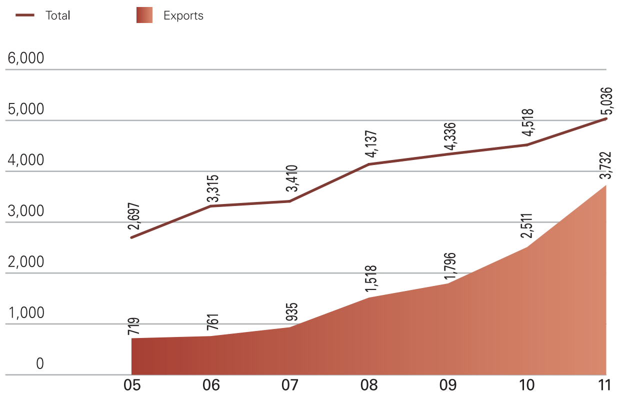
The first units of the new Spanish Euskotren 900 series were delivered in 2011. The aforementioned units include various technological advances developed entirely by CAF Group companies, such as the power train, the command, monitoring and control module, the self-diagnosis of on-board systems or the passenger information system.

Noteworthy among the Group's international operations is CAF's new foothold in New Zealand for the supply of rolling stock. The award of a contract for the manufacture and supply of 57 six-carriage trains for the city of Auckland in New Zealand positions CAF among a select group of companies operating in all continents with a commercial railway system in place.

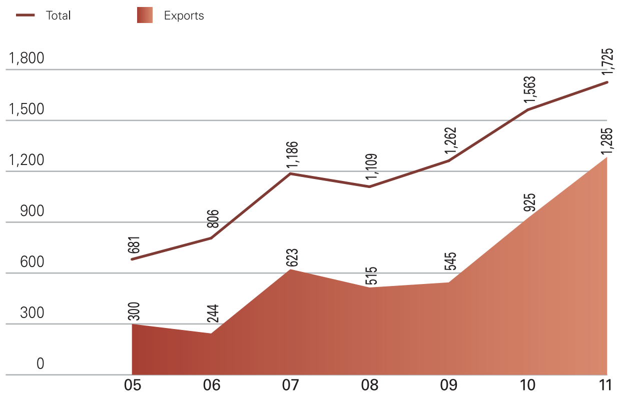
Equally important is the framework agreement signed with German railway companies DB and DB Regio, whereby CAF will supply up to 400 electric trains for regional traffic under


The backlog at 2011 year-end exceeded EUR 5,000 million, up more than 11% on 2010.
CAF operates in all continents with a commercial railway system in place.

**Order Book**
(million of euros)




**Revenue**
(million of euros)




the Civity train platform developed by CAF for commuter and regional services. The signature of the aforementioned framework agreement grants CAF the status of authorised manufacturer for the German railway market, one of the most active and demanding in the world.

The Civity platform is designed to respond to any railway scenario and related traction options (electric, diesel-electric, diesel-hydraulic, diesel-mechanic or dual), a versatile configuration (consisting of between three and eight carriages), the possibility of easily extending the current number of units with new carriages and a range of interior design options tailored to meet customers' needs.

In 2011 agreements to manufacture Civity units were entered into with the Italian region of Friuli-Venezia Giulia for the supply of eight trains, and with the national rail operator of the Balkan Republic of Montenegro, which purchased three units to provide a train service between Podgorica (capital of Montenegro) and Niksic.

Other noteworthy operations included the six metro units in addition to the initial order of 30 units to extend the underground in Istanbul, the 18 trams for the Hungarian city of Debrecen and the 16 underground units commissioned by Metrorex, the underground operator in Bucharest.

In the American market, CAF renewed the confidence shown in prior years by entering into a contract with the underground operator in Santiago de Chile for 12 nine-carriage trains, and the award of 26 six-carriage trains for the Sao Paulo underground service, which confirmed CAF's position as the largest train manufacturer in Brazil. Noteworthy in the US was the award of a contract to manufacture and supply 39 trams for the city of Houston, in the state of Texas.

Alongside the events and contracts referred to in this section, the consolidation and growth of service activities continue, which already account for a significant percentage of the backlog.


# INDUSTRIAL ACTIVITY

2011 saw the completion of various projects such as the delivery of the last 12 units of the contract for 40 train units for Compañía Paulista de Trenes Metropolitanos (CPTM) in the city of São Paulo, the delivery of the last train of the contract for 33 underground units for the Turkish city of Izmir, the four trams of the contract for Metrocentro in Seville, the 17 trains commissioned for the São Paulo underground, the manufacture of 27 trams for the Scottish city of Edinburgh, the extension contract for six trains signed with the Brussels underground, the delivery of the last two two-cab units for Ferrocarriles de Vía Estrecha (FEVE), the first three two-carriage trains for the same customer, the last three high-speed variable gauge trains for RENFE and the last medium-distance electric train unit for the same operator.

Other deliveries during the year included four diesel-traction trains and nine trains in the Civia IV series for RENFE , six of the 13 units for the STM in Mallorca, five train compositions (locomotive + carriages) for the Saudi Arabian railway network and 18 trains of various compositions for the underground in Madrid, 19 of the 48 trains commissioned by the Caracas underground, the first ten train units for Euskotren, 21 trains for the Istanbul underground, 13 train units for Project PPP-5000 in the city of São Paulo, twelve of the 13 trains commissioned for the Medellín underground in Colombia, the first two trains for Line 12 of the Mexican underground, the first nine trains of the 20 commissioned by Northern Ireland, eight trams which complete the first phase of a contract for Zaragoza, seven trams for Malaga and ten trams for Belgrade (Republic of Serbia).

Noteworthy among the new projects recently launched is the advanced stage of manufacture of the first train units for the Bahía de Cádiz project, the first tram for the city of Nantes and the first train in the Civity series for the city of Trieste, not to mention the preliminary manufacturing process for the twelve additional trains commissioned under an extension contract for the Chilean underground.

The most important products manufactured in 2011 were as follows:

1,095 different kinds of train: high-speed, commuter, medium-distance, underground, trams, locomotives, carriages, etc., were the CAF's Group's most noteworthy products in 2011.

| NO. OF VEHICLES | |
|---|---|
| High-speed AVGL trains for RENFE | 16 |
| Medium-distance diesel units for RENFE | 12 |
| Medium-distance trains for NIR (Northern Ireland) | 27 |
| Locomotives for Saudi Arabia | 6 |
| Carriage compositions for Saudi Arabia | 25 |
| Commuter trains for Euskotren | 40 |
| Commuter trains for São Paulo | 64 |
| Commuter trains for Project PPP-5000 in São Paulo | 104 |
| Commuter trains for Izmir (Turkey) | 3 |
| Commuter trains for Mallorca | 20 |
| Commuter trains for Compañía Paulista de Trenes Metropolitanos (CPTM) | 96 |
| CIVIA IV commuter trains for RENFE | 45 |
| Madrid undergound, Lot 3 | 20 |
| Madrid undergound, Lot 1 | 66 |
| Madrid undergound, Lot 2 | 12 |
| Caracas underground | 133 |
| Brussels underground | 30 |
| Istanbul underground | 84 |
| Medellín underground (Colombia) | 36 |
| Line 12 of Mexico City's underground | 49 |
| Trams for Edinburgh | 49 |
| Trams for Zaragoza | 40 |
| Trams for Málaga | 35 |
| Trams for Belgrade | 50 |
| Trams for Seville | 20 |
| Trams for Granada | 5 |
| Two-cab units for FEVE | 2 |
| Two-carriage units for FEVE | 6 |
| TOTAL | 1,095 |

| BOGIES | |
|---|---|
| With welded steel chassis | 1.977 |
| With cast steel chassis | 48 |

| ROLLING STOCK | |
|---|---|
| Conventionally assembled axles (power car + trailer car) | 4,735 |
| Loose axle bodies | 7,795 |
| Wheels | 59,950 |
| Couplers | 1,921 |
| Gear units | 677 |
| Tyres | 635 |

# HUMAN RESOURCES

Although in overall terms the Group's labour force remained stable in 2011, the actual headcount rose at subsidiaries and fell at the Parent.

The changes in the Group's overall headcount were as follows:

| Employees | Total | Annual Average |
|---|---|---|
| 31-12-10 | 7,094 | 6,938 |
| 31-12-11 | 6,952 | 6,926 |

In 2011 particular attention was placed on the consolidation of the employee management processes, in line with the reference standards in the railway industry. A range of initiatives were taken in various areas, which included most notably improvements made to the recruitment and internal communication processes.

Continuing with the projects initiated in recent years, the training activities scheduled in the Group's training plan and individual employee development plans were also carried out, achieving favourable results in terms of satisfaction and effectiveness. Noteworthy in this regard was the preparation of a technology-specific Training Plan.

The Group's international expansion plan, basically in relation to exports and preliminary projects, achieved through new recruits and the inauguration of sales offices in various countries, posed a considerable challenge for CAF's international human resources division in terms of providing support for the Group's new commercial ventures in countries where it previously had no presence.

The new international projects initiated in 2011 were also supported by various actions aimed at meeting the needs arising from any project implementation.

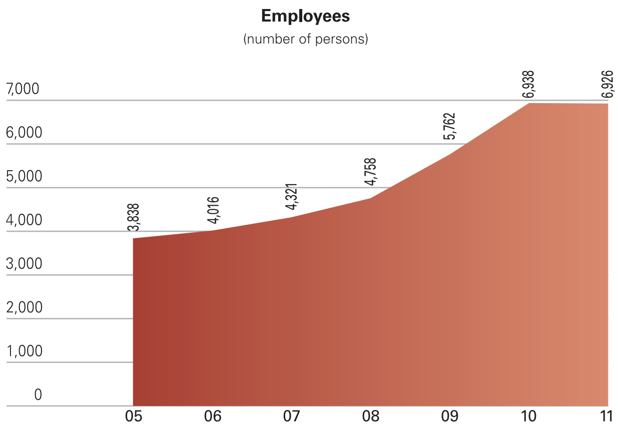
CAF's industrial facilities and international subsidiaries, which already have projects underway, encompass the activities carried out in the various areas of international management. CAF's ever-increasing international presence requires adaptation of the role of Human Resources. The internal


The Group's labour force remained stable and particular attention was placed on the consolidation of the employee management processes. Noteworthy was the preparation of a technology Training Plan. The implementation of Equality Plans continued at the various centres to promote the principle of equal opportunities for men and women in the workplace.

organisation has evolved in line with the aforementioned organisational developments, creating a structure organised by geographical area that enables optimisation of HR-related activities in response to new demands.

The required external audits were performed in the context of Occupational Risk Prevention and the Environment in order to maintain the OHSAS 18001 and the ISO 14001:2004 certifications awarded to the Beasain, Irun and Zaragoza centres.

In continuity with the Equality Plan implemented in Beasain, in 2011 Equality Plans were implemented in the Zaragoza and Irun centres, upholding, among other objectives, the principle of equal opportunities for men and women in the workplace and guaranteeing the same opportunities for incorporation and professional development at all levels.




# ENVIRONMENTAL ACTIVITY

CAF is aware that industrial activity affects the environment and therefore the Group's policy includes environmental management, whereby protection of the environment is assumed as an objective of the organisation, while ensuring that the systems, equipment and railway material it manufactures are of the highest standards in terms of safety, efficiency and respect for the environment.

In December 2011, the audit was performed for maintenance of ISO 14001:2004 certification for the environmental management systems at the Beasain, Irun and Zaragoza plants, the outcome of which was satisfactory. This system has been in operation since 2001.

Efforts in this area were geared towards adopting the necessary and economically viable measures to control and, where necessary, minimise important areas of environmental concern, such as emissions into the atmosphere, waste generation and energy consumption. Likewise, better use of natural resources and the generation of renewable energy are also encouraged.

Aware of the importance of environmental awareness in the manufacturing chain for achieving improvements in environmental objectives, in 2011 CAF organised a series of environmental awareness workshops, which were attended by a large number of employees.


CAF continues to implement the "Product Sustainability Function", introducing eco-design methods into engineering processes in order to optimise and control the environmental impact of products from the design stage and throughout the life cycle.

## ECODESIGN

With the aim of providing more efficient, environmentally friendly and competitive means of transport in a market with increasingly stringent environmental regulations, and as part of CAF's commitment to introduce ecodesign methodologies into its engineering processes to optimise and control the environmental impact of its products throughout their lifecycle from the design phase, in 2011 CAF performed Life Cycle Assessments (LCAs) and made Environmental Product Declarations (EPDs) for the Urbos platform and, more specifically, for the Zaragoza Tram and the version of the Civity commuter train platform for the Friuli-Venezia Giulia Autonomous Community.

The Life Cycle Assessments (LCAs) and Environmental Product Declarations (EPDs) performed on the Urbos platform were audited by a certified external auditor to verify the study in accordance with the Unife-Environdec standard, and the Urbos environmental declaration was recorded as one of the world's first EPDs for a tram. This declaration enabled fulfilment of the bidding and contractual requirements to build trams for the city of Stockholm (Sweden).

In addition to the recently completed inventory of the production processes, the Civity train project also includes a product inventory. The Civity LCA is expected to be completed by spring of 2012.

Also, in compliance with the Kyoto Protocol, greenhouse gas emissions remained at 2010 levels, consolidating the significant reduction achieved.


# INVESTMENTS

Capital expenditure at CAF's plants and facilities in 2011 amounted to EUR 30,561 thousand. Investments in 2011 focused mainly on modernising the production plants and facilities in general, in addition to implementing improvements relating to workplace safety and the environment.

The most significant investments made in 2011 were as follows:

- In the Rolling Stock Business Unit, significant advances were made in the work carried out under the investment plan implemented in recent years in relation to both the forging facilities and wheel machining and verification lines, which involved investments for the modernisation and optimisation of the aforementioned facilities. Noteworthy investments also included the new Rolling Stock laboratories, which have been fitted out with state-of-the-art equipment, and the first phase of the environmental investment for the installation of a new fume collection and filtration system at the steelworks.

Capital expenditure at CAF's plants and facilities in 2011 amounted to EUR 30,561 thousand. These investments focused mainly on modernising the production plants and facilities in general, as well as the plants of international subsidiaries, in addition to implementing improvements relating to workplace safety and the environment.

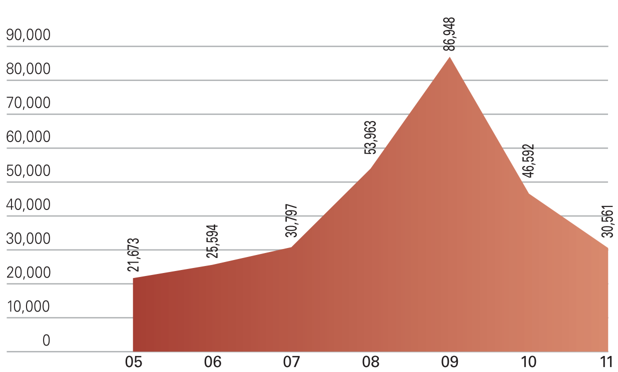
- Enhancements were made to the facilities of the Vehicles Business Unit, mainly aimed at modernising them for new projects and increasing safety. Notable investments included the new laser cutting machines installed in the Bogies area to provide a more efficient response to production requirements.

- In the Technology area, the development of new projects required considerable investment in hardware and software to equip CAF with the necessary technical means. Significant investment was also made in new applications and tools, aimed at improving operations in various areas (planning, logistics, safety, etc.).

Lastly, worth mentioning is the investment made in 2011 in some of our international companies. These included the investment made at the Elmira plant in the US to modernise its facilities, particularly in terms of structures and finishing areas, and the completion of the new general warehouse at the Hortolandia manufacturing plant in the state of São Paulo in Brazil. Also worth noting are the investments made to expand the photovoltaic plant of the subsidiary Ennera, and those made in equipment to enhance the facilities of the testing and certification subsidiary, Cetest.

As regards the investments made in intangible assets, these were mainly in relation to R&D projects, in particular the OARIS high-speed train platform project.

**Investments**
(thousand of euros)




Projects involving CAF, CAF I+D and various Group subsidiaries were fostered, promoting collaboration with technology centres and universities.

# TECHNOLOGICAL DEVELOPMENT

In 2011 the CAF Group approved the Technology Plan for 2012-2014, under which a total of 31 new projects were identified. As a result, a total of 85 projects initiated under the 2011 Technology Plan are currently underway.

The financing for the aforementioned projects included financial support for R&D activities from the following entities:

- Provincial Government of Guipuzcoa.
- Basque Autonomous Community Government.
- Ministry of Innovation.
- Ministry of Industry.
- European Commission.

The Technology Plan implemented in 2011 fostered projects involving CAF, CAF I+D and various Group subsidiaries, promoting ongoing close collaboration with different technology centres and universities.

The main projects included in the 2011-2013 Technology Plan and those underway since 2011 encompassed the following fields:

- High-speed.
- Specific railway products.
- Energy management and ecodesign, comprising projects relating to the reduction of energy consumption in trains and in the system as a whole, energy capture for catenary-free trams, etc.
- Lighting (on-board and fixed).
- Specific products and developments using basic rail technologies, adaptations to safety regulations, traction, rolling stock, gear units, control and communications, maintenance, etc.

All of the above combine the execution of projects aimed at assimilating technologies through the development of products based thereupon. Noteworthy projects included:

- ECOTRANS, a CENIT project for the development of technologies for sustainable urban transport led by the CAF Group and also involving three CAF technological subsidiaries, 13 non-Group companies and 20 technology centres and universities in addition to CAF and CAF I+D.
- Project VEGA for the development of safety electronics.
- Projects for the development of expertise in driving resistance, Electromagnetic Compatibility (EMC), railway dynamics, noise and vibrations, and energy accumulation systems.
- OARIS high-speed train prototype.
- ERTMS-ETCS system for the development of on-board signalling equipment.
- Development of elastic wheels for trams and gear units.


# TECHNOLOGICAL DEVELOPMENT

The CAF Group is actively involved in various working groups set up by the UNIFE (Association of the European Rail Industry) and is a member of UNISIG, a consortium of European companies working in the railway signalling area. One of the projects being developed by UNIFE is the preparation of railway material for the SHIFT2RAIL Joint Technology Initiative consortium in collaboration with leading European manufacturers. The aim of the consortium is to promote the technological leadership of the European Railway industry in the global market through the development of a series of R&D initiatives over the next seven years.

The CAF Group also participated in joint projects with RENFE and ADIF, and with various international authorities and companies as part of the 7th European Framework Programme. Noteworthy projects included:

- Unichanger project led by the Spanish Railway Foundation involving major industry players.
- European TREND projects, in collaboration with leading industry companies, for the development of validation environments for EMC in railway vehicles, and the OSIRIS project for reducing energy consumption in urban rail systems.
- The European Dynotrain, Aerotrain and Euroaxles projects involving CAF and CAF I+D, aimed at simplifying current certification processes.

CAF's technological subsidiaries continued their normal R&D project development activity, the most noteworthy being as follows:

- The commercial operation of the catenary-free, autonomous energy accumulation system installed in the Seville tramway and its application to the Zaragoza and Granada tramways.
- The development of traction equipment covering a range of catenary voltages of up to 25 kV, enabling its commercialisation in a project for Indian Railways.
- Completion of the track trials for CAF's Euskotren train units, which include video-information and video surveillance equipment, etc. developed under the Traintic Technology Plan.
- The development of ERTMS track products.

The most relevant engineering projects undertaken by the Group in 2011 were as follows:

- Locomotives and carriages for Saudi Arabia.
- OARIS 350 km/h high-speed train.
- Electric units for Euskotren.
- Malaga underground.
- Diesel trains for Northern Ireland Railways (NIR).
- Train-tram for Bahia de Cadiz-Chiclana.
- Belgrade tram.
- FGC s/113 electric units.
- Tilting diesel trains for Sardinia.
- CIVITY train for Trieste (Italy).
- Electric units for CPTM (Brazil).
- Passenger carriages for Amtrak (USA).
- Electric units for Recife (Brazil).
- Line 5 of the São Paulo underground (Brazil).
- Medellín underground.
- Granada tram.
- Besançon tram (France).
- Nantes tram (France).
- Stockholm tram (Sweden).

The CAF Group also participated in joint projects with RENFE and ADIF, and with various international authorities and companies as part of both national programmes and of the 7th European Framework Programme.

The following projects were also initiated in the last few months of 2011:

- Debrecen tram (Hungary).
- Light rail train for Houston (USA).
- Electric units for Auckland (New Zealand).
- CIVITY train for Montenegro.
- Bucharest underground (Rumania).

The basic development of new types of vehicles to extend CAF's product range also continued.


# RISK MANAGEMENT POLICY

The most significant risks facing the Company can be grouped together in the following categories:

## 1. Financial risks

The financial risk management policy adopted by the CAF Group focuses on the uncertainty of financial markets and aims to minimise the potential adverse effects on the Group's financial performance.

The Group's Financial Department identifies, assesses and hedges financial risks by establishing policies to manage overall risk and specific risk areas such as foreign currency, interest rate and liquidity risks, the use of derivative and non-derivative instruments, the investment of cash surpluses and deviations from budgets.

### a) Market risk

The CAF Group companies operate on an international stage and, therefore, are exposed to foreign currency risk in their foreign currency transactions (particularly the US dollar, the Brazilian real, the pound sterling and the Swedish krona).

The Group companies use forward contracts to hedge the foreign currency risk arising from future commercial transactions and recognised assets and liabilities. This risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency other than the functional currency of the Group (the euro).

The Group's standard practice is to fully hedge the market risk associated with contracts denominated in currencies other than its functional currency. The hedges are intended to avoid the impact of currency fluctuations on the various agreements entered into, so that the Group's results present fairly its industrial and service activity.

For the most significant raw materials, CAF places the orders and agrees on the price when each new project commences. The risk of a rise in raw material prices having an adverse effect on the contractual margins is thus hedged.

### b) Credit risk

Most of the Group's accounts receivable and work in progress relate to various customers in different countries. Contracts generally include progress billings.

The Group's standard practice is to hedge against the risk of termination or default associated with export contracts by taking out export credit insurance policies, pursuant to the rules in the OECD Consensus concerning instruments of this nature.

### c) Liquidity risk

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to cover all the Group's financial obligations effectively.

The CAF Group manages liquidity risk by:

- Seeking the highest possible level of self-financing with respect to each of the contracts.
- Maintaining a strong short-term liquidity position.
- Maintaining undrawn credit balances.

### d) Cash flow and fair value interest rate risk

The Group's interest rate risk arises on borrowings.

The Group's policy with respect to current transactions is to resort in exceptional circumstances only to third-party borrowings in the form of short-term debt tied to floating market indices, normally Euribor, thereby substantially mitigating its interest rate risk exposure.

### e) Risks arising from variances with respect to project budgets

Variances from project budgets that served as the basis for drawing up the various bids are covered through the use of a detailed system for reporting each of the cost items, which compares on an ongoing basis the budget for those items with the actual situation regarding the costs of each project. In this way, these data are monitored on an ongoing basis over the life of the projects using an internal process created for this purpose in which all the departments involved in each of the projects participate.

## 2. Risks arising from environmental damage

CAF is fully committed to protecting the environment. With this objective in mind, it has implemented the principles of the EU's environmental action programme based on preventative measures and the rectification of problems at source. To this end, the Company has introduced a programme of measures in various areas of environmental concern relating to the atmosphere, spills, waste, consumption of raw materials, energy, water and noise, and has obtained certification under the ISO14001 standard.

## 3. Risks arising from harm caused to third parties as a result of deficiencies or delays in the provision of services

All CAF's plants use the most advanced technology available in the market and state-of-the-art techniques in order to optimise production pursuant to the ISO 9001 and 9002 standards.

CAF also implements a highly conservative policy of taking out insurance to protect itself sufficiently from the consequences of any of these risks actually materialising.

## 4. Occupational risks or damage to plant assets

CAF has an Occupational Risk Prevention System in place audited by an independent firm. The Prevention System Manual defines, inter alia, the risk assessment, accident investigation, safety inspection, health monitoring and training activities. There is also an annual Prevention Plan for the planning of preventative measures. CAF also has an Employee Training Plan.

## OUTLOOK

The Group's outlook for the coming years is focused on the following points:

- Development of the Group's potential in railway-related services, such as concessions, and train lease and maintenance.
- Development of the Group's potential in turnkey systems and railway signalling.
- Development of new rolling stock systems and vehicles, together with the implementation of advanced comprehensive project management systems.
- Increased presence of the Group in international railway material markets.
- Systematic rollout of cost-reduction programmes to all Group areas.

## EVENTS AFTER THE REPORTING PERIOD

At 31 January 2012, the Group had a firm backlog of EUR 4,988,950 thousand.


# CORPORATE GOVERNANCE ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report for 2011 forms part of the Directors' Report and, at the date of publication of the Annual Financial Report, will be available on the CNMV's website:

http://www.cnmv.es/Portal/consultas/EEE/InformacionGobCorp.aspx?nif=A20001020


# LETTER FROM THE AUDITOR

Deloitte.

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*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.*

## AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Construcciones y Auxiliar de
Ferrocarriles, S.A.:

We have audited the consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. ("CAF" or "the Parent") and Subsidiaries composing the CAF Group (see Note 2-f), which comprise the consolidated balance sheet at 31 December 2011 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended. As indicated in Note 2-a, the Parent's directors are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

In our opinion, the accompanying consolidated financial statements for 2011 present fairly, in all material respects, the consolidated equity and consolidated financial position of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries composing the CAF Group at 31 December 2011, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

The accompanying consolidated directors' report for 2011 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2011. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of the consolidated companies.

DELOITTE, S.L.
Registered in ROAC UNDER NO. S0692

Alberto Uribe-Echevarría Abascal
28 February 2012

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, folio 188, sección 8, hoja, M-54414, inscripción 96, C.I.F. B-79104469. Domicilio Social: Plaza Pablo Ruiz Picasso, 1 - Torre Picasso, 28020 Madrid.

Member of
Deloitte Touche Tohmatsu

# FINANCIAL STATEMENTS OF THE CONSOLIDATED GROUP
Year 2011

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

# Consolidated Balance Sheets

## at 31 December 2011 and 2010 (Notes 1, 2 and 3) (Thousands of Euros)

Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries Composing the CAF Group

| Assets | 31-12-11 | 31-12-10 (*) |
|---|---|---|
| **Non-current assets:** | | |
| **Intangible assets (Note 7)** | | |
| Goodwill | 232 | 596 |
| Other intangible assets | 30,567 | 211,865 |
| | **30,799** | **212,461** |
| **Property, plant and equipment, net (Note 8)** | **288,539** | **300,967** |
| **Investments accounted for using the equity method (Note 9)** | **11,558** | **16,979** |
| **Non-current financial assets (Note 9)** | **420,422** | **56,718** |
| **Deferred tax assets (Note 18)** | **110,353** | **113,005** |
| **Total non-current assets** | **861,671** | **700,130** |
| **Current assets:** | | |
| **Inventories (Note 11)** | **365,464** | **354,906** |
| **Trade and other receivables** | | |
| Trade receivables for sales and services (Notes 10, 11 and 12) | 776,715 | 669,400 |
| Other accounts receivable (Notes 7, 10 and 19) | 48,841 | 77,328 |
| Current tax assets (Note 19) | 3,684 | 4,324 |
| | **829,240** | **751,052** |
| **Other current financial assets (Note 13)** | **235,519** | **358,467** |
| **Other current assets** | **2,691** | **3,433** |
| **Cash and cash equivalents** | **86,214** | **55,705** |
| **Total current assets** | **1,519,128** | **1,523,563** |
| **Total assets** | **2,380,799** | **2,223,693** |

| Equity and Liabilities | 31-12-11 | 31-12-10 (*) |
|---|---|---|
| **Equity (Note 14):** | | |
| **Shareholders' equity** | | |
| Registered share capital | 10,319 | 10,319 |
| Share premium | 11,863 | 11,863 |
| Revaluation reserve | 58,452 | 58,452 |
| Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method | 444,554 | 351,221 |
| Profit for the year attributable to the Parent | 146,182 | 129,624 |
| | **671,370** | **561,479** |
| **Valuation Adjustments** | | |
| Translation differences | (5,106) | 2,145 |
| Hedges | (1,820) | - |
| | **(6,926)** | **2,145** |
| **Equity attributable to the Parent** | **664,444** | **563,624** |
| **Non-controlling interests** | **2,820** | **9,660** |
| **Total equity** | **667,264** | **573,284** |
| **Non-current liabilities:** | | |
| **Long-term provisions (Note 20)** | **3,662** | **2,146** |
| **Non-current financial liabilities (Notes 15 and 16)** | | |
| Bank borrowings | 242,171 | 240,565 |
| Other financial liabilities | 84,159 | 66,624 |
| | **326,330** | **307,189** |
| **Deferred tax liabilities (Note 18)** | **85,956** | **55,934** |
| **Other non-current liabilities (Note 3-p)** | **8,727** | **5,546** |
| **Total non-current liabilities** | **424,675** | **370,815** |
| **Current liabilities:** | | |
| **Short-term provisions (Note 20)** | **247,798** | **211,104** |
| **Current financial liabilities (Notes 15 and 16)** | | |
| Bank borrowings | 5,878 | 20,344 |
| Other financial liabilities | 28,096 | 21,946 |
| | **33,974** | **42,290** |
| **Trade and other payables** | | |
| Payable to suppliers | 417,312 | 440,363 |
| Other accounts payable (Notes 10, 11, 15 and 19) | 584,089 | 580,235 |
| Current tax liabilities (Note 19) | 5,322 | 4,013 |
| | **1,006,723** | **1,024,611** |
| **Other current liabilities** | **365** | **1,589** |
| **Total current liabilities** | **1,288,860** | **1,279,594** |
| **Total equity and liabilities** | **2,380,799** | **2,223,693** |

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the consolidated balance sheet at 31 December 2011.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

# Consolidated Income Statements

## for the years ended 31 December 2011 and 2010 (Notes 1, 2 and 3) (Thousands of Euros)

### Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries Composing the CAF Group

| (Debit) Credit | 2011 | 2010 (*) |
|---|---|---|
| **Continuing operations:** | | |
| Revenue (Notes 6, 9 and 10) | 1,725,099 | 1,563,206 |
| +/- Changes in inventories of finished goods and work in progress | 66,356 | (20,207) |
| In-house work on non-current assets | 2,054 | 1,783 |
| Procurements (Note 21) | (965,028) | (814,680) |
| Other operating income (Note 21) | 6,402 | 9,172 |
| Staff costs (Note 22) | (342,745) | (318,160) |
| Other operating expenses (Note 21) | (263,301) | (218,855) |
| Depreciation and amortisation charge (Notes 7 and 8) | (36,788) | (31,278) |
| Impairment and gains or losses on disposals of non-current assets (Notes 7, 8 and 9) | (27,266) | (14,337) |
| Other gains or losses | - | - |
| **Profit from operations** | **164,783** | **156,644** |
| Finance income (Notes 9 and 13) | 9,620 | 11,473 |
| Finance costs (Note 16) | (26,627) | (2,102) |
| Exchange differences | 39 | (9,217) |
| Impairment and gains or losses on disposals of financial instruments | (639) | 2,685 |
| Change in fair value of financial instruments | (8) | (45) |
| **Financial profit (loss)** | **(17,615)** | **2,794** |
| Result of companies accounted for using the equity method (Note 9) | (3,301) | (846) |
| **Profit before tax** | **143,867** | **158,592** |
| Income tax (Note 18) | (14,260) | (14,880) |
| **Profit for the year from continuing operations** | **129,607** | **143,712** |
| Profit (Loss) for the year from discontinued operations (Note 2-g) | 11,842 | (18,272) |
| **Consolidated profit (loss) for the year** | **141,449** | **125,440** |
| Attributable to: | | |
| The Parent | 146,182 | 129,624 |
| Non-controlling interests | (4,733) | (4,184) |
| **Earnings per share (in euros)** | | |
| Basic | 42.64 | 37.81 |
| Diluted | 42.64 | 37.81 |

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the consolidated income statement for the year ended 31 December 2011.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

# Consolidated Statements of Comprehensive Income

**for 2011 and 2010** (Notes 1 to 3) (Thousands of Euros)

Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries Composing the CAF Group

| | 2011 | 2010 (*) |
|---|---|---|
| **A) Consolidated profit for the year** | **141,449** | **125,440** |
| **B) Income and expense recognised directly in equity** | **(19,666)** | **17,092** |
| Arising from revaluation of financial instruments | | - |
| Arising from cash flow hedges | (2,528) | 97 |
| Translation differences | (17,846) | 17,022 |
| Tax effect | 708 | (27) |
| **C) Transfers to consolidated profit or loss** | **10,232** | **-** |
| Translation differences | 10,232 | - |
| **Total comprehensive income (A+B+C)** | **132,015** | **142,532** |
| Attributable to: | | |
| The Parent | 137,111 | 145,541 |
| Non-controlling interests | (5,096) | (3,009) |

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of comprehensive income for 2011.

# Consolidated Statements of Changes in Equity

## **for 2011 and 2010** (Notes 1 to 3) (Thousands of Euros)

Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries Composing the CAF Group

| | Equity Attributable to the Parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' Equity | | | | | | | | |
| | Share Capital | Share Premium | Unrealised Asset and Liability Revaluation Reserve | Other Reserves | Net Profit for the Year | Valuation Adjustments | Translation Differences | Non-Controlling Interests | Total Equity |
| **Balances at 31 December 2009 (*)** | **10,319** | **11,863** | **58,452** | **268,294** | **124,343** | **(70)** | **(13,702)** | **12,946** | **472,445** |
| **Total recognised income/expense** | **-** | **-** | **-** | **-** | **129,624** | **70** | **15,847** | **(3,009)** | **142,532** |
| **Transactions with shareholders or owners** | **-** | **-** | **-** | **(5,421)** | **(35,995)** | **-** | **-** | **(277)** | **(41,693)** |
| Dividends paid | - | - | - | - | (35,995) | - | - | (64) | (36,059) |
| Transactions with non-controlling shareholders | - | - | - | (5,421) | - | - | - | (213) | (5,634) |
| **Other changes in equity** | **-** | **-** | **-** | **88,348** | **(88,348)** | **-** | **-** | **-** | **-** |
| Transfers between equity items | - | - | - | 88,348 | (88,348) | - | - | - | - |
| **Balances at 31 December 2010 (*)** | **10,319** | **11,863** | **58,452** | **351,221** | **129,624** | **-** | **2,145** | **9,660** | **573,284** |
| **Total recognised income/expense** | **-** | **-** | **-** | **-** | **146,182** | **(1,820)** | **(7,251)** | **(5,096)** | **132,015** |
| **Transactions with shareholders or owners** | **-** | **-** | **-** | **(296)** | **(35,995)** | **-** | **-** | **(229)** | **(36,520)** |
| Dividends paid | - | - | - | - | (35,995) | - | - | (86) | (36,081) |
| Transactions with non-controlling shareholders | - | - | - | (296) | - | - | - | (143) | (439) |
| **Other changes in equity** | **-** | **-** | **-** | **93,629** | **(93,629)** | **-** | **-** | **(1,515)** | **(1,515)** |
| Transfers between equity items | - | - | - | 93,629 | (93,629) | - | - | - | - |
| Changes in the scope of consolidation | - | - | - | - | - | - | - | (1,515) | (1,515) |
| **Balances at 31 December 2011 (*)** | **10,319** | **11,863** | **58,452** | **444,554** | **146,182** | **(1,820)** | **(5,106)** | **2,820** | **667,264** |

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of changes in equity for 2011.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

# Consolidated Statements of Cash Flows

**for 2011 and 2010** (Notes 1 to 3) (Thousands of Euros)

Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries Composing the CAF Group

| | 2011 | 2010 (*) |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Profit for the year | 141,449 | 125,440 |
| Adjustments for | | |
| Income tax | 32,067 | 4,377 |
| Depreciation and amortisation charge (Notes 7 and 8) | 44,196 | 38,647 |
| Impairment losses (Notes 7 and 9) | 27,125 | 11,731 |
| Changes in provisions (Notes 3-l and 20) | 42,336 | (8,974) |
| Gains or losses due to changes in the scope of consolidation (Note 2-g) | (64,462) | - |
| Other income and expenses | (167) | 4,267 |
| Gains and losses on disposals of non-current assets (Note 8) | 770 | (42) |
| Investments accounted for using the equity method (Note 9) | 3,301 | 846 |
| Finance income | (10,097) | (14,399) |
| Finance costs | 59,057 | 32,449 |
| Changes in working capital | | |
| Trade receivables and other current assets (Notes 3-d and 12) | (125,597) | 122,152 |
| Inventories (Note 11) | (17,462) | (12,094) |
| Trade payables | 10,605 | (311,346) |
| Other current liabilities | (1,222) | 1,269 |
| Other non-current assets and liabilities | (43,150) | 1,537 |
| Other cash flows from operating activities | | |
| Income tax recovered (paid) (Note 19) | (27,273) | (18,258) |
| Other amounts received/(paid) relating to operating activities | (3,540) | (1,293) |
| **Net cash flows from operating activities (I)** | **67,936** | **(23,691)** |
| **Cash flows from investing activities:** | | |
| Payments due to investment | | |
| Group companies and associates (Note 9) | (13,348) | (12,574) |
| Property, plant and equipment, intangible assets and investment property (Notes 7 and 8) | (44,766) | (64,907) |
| Other financial assets (Notes 9 and 13) | (312,894) | (40,115) |
| Business unit (changes in the scope of consolidation) | - | (6,843) |
| Proceeds from disposal | | |
| Property, plant and equipment, intangible assets and investment property (Notes 7 and 8) | 745 | 403 |
| Other financial assets (Notes 9 and 13) | 133,769 | 151,936 |
| Interest received | 10,514 | 9,180 |
| Changes in the scope of consolidation - Decrease in cash due to loss of control (Note 2-g) | (10,571) | - |
| **Net cash flows from investing activities (II)** | **(236,551)** | **37,080** |
| **Cash flows from financing activities:** | | |
| Acquisition of non-controlling interests (Note 2-f) | (394) | (5,630) |
| Proceeds/(Payments) relating to financial liability instruments | | |
| Issue (Notes 15 and 16) | 287,267 | 38,784 |
| Repayment (Notes 15 and 16) | (28,439) | (28,869) |
| Dividends and returns on other equity instruments paid | (36,081) | (36,059) |
| Other cash flows from financing activities | | |
| Interest paid (Note 16) | (20,682) | (12,842) |
| Other amounts received/(paid) relating to financing activities | - | - |
| **Net cash flows from financing activities (III)** | **201,671** | **(44,616)** |
| **Net increase in cash and cash equivalents (I+II+III)** | **33,056** | **(31,227)** |
| Cash and cash equivalents at beginning of year | 55,705 | 81,727 |
| Effect on cash of foreign exchange rate changes | (2,547) | 5,205 |
| **Cash and cash equivalents at end of year** | **86,214** | **55,705** |

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of cash flows for 2011.

# Notes to the Consolidated Financial Statements

## for the Year Ended 31 December 2011

Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries (the CAF Group)

## 1. DESCRIPTION AND ACTIVITIES OF THE PARENT

Construcciones y Auxiliar de Ferrocarriles, S.A. ("CAF" or "the Parent") was incorporated for an indefinite period of time in San Sebastián (Guipúzcoa).

The Parent's object is described in Article 2 of its bylaws.

The Parent currently engages mainly in the manufacture of railway materials.

The Parent, as part of its business activities, owns majority ownership interests in other companies (see Note 2-f).

## 2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

### a) Basis of presentation

The consolidated financial statements for 2011 of the CAF Group were formally prepared by the directors:

- In accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, including International Accounting Standards (IASs) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC). The principal accounting policies and measurement bases applied in preparing the Group's accompanying consolidated financial statements are summarised in Note 3.
- Taking into account all the mandatory accounting policies and rules and measurement bases with a material effect on the consolidated financial statements, as well as the alternative treatments permitted by the relevant standards in this connection, which are specified in Note 3.
- So that they present fairly the CAF Group's consolidated equity and financial position at 31 December 2011 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.
- On the basis of the accounting records kept by the Parent and by the other Group companies. However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements (IFRSs) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards.

The CAF Group's consolidated financial statements for 2010 were approved by the shareholders at the Annual General Meeting of CAF on 4 June 2011. The 2011 consolidated financial statements of the Group and the 2011 financial statements of the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, CAF's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

### b) Adoption of International Financial Reporting Standards (IFRSs)

The Group's consolidated financial statements for 2011 were prepared in accordance with International Financial Reporting Standards, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of 19 July 2002, taking into account all the mandatory accounting principles and rules and measurement bases with a material effect, as well as the alternative treatments permitted by the relevant standards in this connection.

The amendment to IAS 32, Financial Instruments: Presentation - Classification of Rights Issues and the revision of IAS 24, Related Party Disclosures became effective for the first time in 2011 and were applied in these consolidated financial statements of the Group without having a significant impact on the figures reported, on the presentation of the consolidated financial statements or on the disclosures therein.

Also, the following interpretations came into force on 1 January 2011: IFRIC 14, Prepayments of a Minimum Funding Requirement; and IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments. The adoption of these new interpretations in 2011 did not have any impact on the Group's consolidated financial statements for the year ended 31 December 2011.

### Standards and interpretations issued but not yet in force

At the date of preparation of these consolidated financial statements, the following standards and interpretations had been published by the IASB but had not yet come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union.

| **Standards and amendments to standards:** | | **Obligatory Application in Annual Reporting Periods Beginning on or After (2)** |
|---|---|---|
| Amendments to IFRS 7 | Disclosures - Transfers of Financial Assets | 1 July 2011 |
| IFRS 9 **(1)** | Financial Instruments: Classification and Measurement | 1 January 2015 |
| Amendments to IAS 12 **(1)** | Deferred Taxes Arising from Investment Property | 1 January 2012 |
| IFRS 10 **(1)** | Consolidated Financial Statements | 1 January 2013 |
| IFRS 11 **(1)** | Joint Arrangements | 1 January 2013 |
| IFRS 12 **(1)** | Disclosure of Interests in Other Entities | 1 January 2013 |
| IFRS 13 **(1)** | Fair Value Measurement | 1 January 2013 |
| IAS 27 (Revised) **(1)** | Separate Financial Statements | 1 January 2013 |
| IAS 28 (Revised) **(1)** | Investments in Associates and Joint Ventures | 1 January 2013 |
| Amendments to IAS 1 **(1)** | Presentation of Items of Other Comprehensive Income | 1 July 2012 |
| Amendments to IAS 19 **(1)** | Employee Benefits | 1 January 2013 |
| Amendments to IAS 32 **(1)** | Offsetting Financial Assets and Financial Liabilities | 1 January 2014 |
| Amendments to IFRS 7 **(1)** | Offsetting Financial Assets and Financial Liabilities | 1 January 2013 |

| **Interpretations:** | | |
|---|---|---|
| IFRIC 20 **(1)** | Stripping Costs in the Production Phase of a Surface Mine | January 2013 |

**(1)** Standards and interpretations not yet adopted by the European Union at the date of formal preparation of these consolidated financial statements.

**(2)** Date of obligatory application as approved in the Official Journal of the European Union, which differs from the original date set by the IASB.

### IFRS 9, Financial Instruments: Classification and Measurement

IFRS 9 will in the future replace the current part of IAS 39 relating to classification and measurement. There are very significant differences with respect to the current standard, in relation to financial assets, including the approval of a new classification model based on only two categories, namely instruments measured at amortised cost and those measured at fair value, the disappearance of the current "held-to-maturity investments" and "available-for-sale financial assets" categories, impairment analyses only for assets measured at amortised cost and the non-separation of embedded derivatives in financial asset contracts.

In relation to financial liabilities, the classification categories proposed by IFRS 9 are basically the same as those currently contained in IAS 39.

At the reporting date, the future impact of the adoption of this standard had still not been analysed.

### Amendments to IAS 12, Income Taxes - Deferred Taxes Relating to Investment Property

The amendments introduce an exception to the general principles of IAS 12 which affects deferred taxes arising from investment property measured using the fair value model in IAS 40, Investment Property. In these cases, there is now a rebuttable presumption in relation to the measurement of any deferred tax asset or deferred tax liability that the carrying amount of the investment property will be recovered through sale.

These amendments will foreseeably not have an impact on the Group since it does not have any assets classified as investment property.

### IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, IAS 27 (Revised) Separate Financial Statements and IAS 28 (Revised), Investments in Associates and Joint Ventures

IFRS 10 will modify the current definition of control. The new definition of control sets out the following three elements of control: power over the investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect the amount of the investor's returns.

The Group is analysing how this new definition of control will affect the consolidated companies taken as a whole.

IFRS 11, Joint Arrangements supersedes IAS 31. The fundamental change introduced by IFRS 11 with respect to the current standard is the elimination of the option of proportionate consolidation for jointly controlled entities, which will begin to be accounted for using the equity method.

This new Standard will not have a material effect on the Group's consolidated financial statements, although the option that has been applied for the consolidation of joint ventures has been the proportionate consolidation of their financial statements.

IAS 27 and IAS 28 are revised in conjunction with the issue of the aforementioned new IFRSs.

Lastly, IFRS 12 represents a single standard presenting the disclosure requirements for interests in other entities (whether these be subsidiaries, associates, joint arrangements or other interests) and includes new disclosure requirements.

Accordingly, its entry into force will foreseeably give rise to an increase in the disclosures that the Group has been making, i.e., those currently required for interests in other entities and other investment vehicles.

### IFRS 13, Fair Value Measurement

The purpose of this IFRS is to set out in a single standard a framework for measuring the fair value of assets or liabilities when other standards require that the fair value measurement model be used. IFRS 13 changes the current definition of fair value and introduces new factors to be taken into account; it also extends the disclosure requirements in this area.

At the reporting date, the future impact of the adoption of this standard had still not been analysed.

### Amendments to IAS 19, Employee Benefits

The main changes introduced by these amendments to IAS 19 will affect the accounting treatment of defined benefit plans since the “corridor” is eliminated under which companies are currently permitted to opt for deferred recognition of a given portion of actuarial gains and losses. When the amendments come into effect, all actuarial gains and losses must be recognised immediately in other comprehensive income. The amendments also include significant changes in the presentation of cost components in the statement of comprehensive income, which will be aggregated and presented in a different way.

The CAF Group does not have any employee benefits of this kind and, therefore, the entry into force of these amendments will not have any impact.

### Amendments to IAS 32, Financial Instruments: Presentation, and to IFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 introduce certain additional clarifications in the application guidance on the requirements of the standard for being able to offset a financial asset and a financial liability in the balance sheet. IAS 32 already indicates that a financial asset and a financial liability may only be offset when an entity has a legally enforceable right to set off the recognised amounts. The amended application guidance indicates, among other things, that in order for this condition to be met, the right of set-off must not be contingent on a future event and must be legally enforceable in the normal course of business; in the event of default; and in the event of insolvency or bankruptcy of the entity and all of the counterparties.

The parallel amendments to IFRS 7 introduce a specific section of new disclosure requirements for all recognised financial instruments that are set off, and also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

The entry into force of these amendments should not give rise to any changes in accounting policies since the analysis performed by the Group to assess whether or not to present certain financial assets and financial liabilities as offset is in line with the clarifications introduced by the standard. The parallel amendments to IFRS 7 will foreseeably give rise to an increase in the disclosures made by the Group, which are the disclosures that are currently required for situations of this nature.

### c) Functional currency

These consolidated financial statements are presented in euros, since it is the currency of the main economic area in which the Group operates. Foreign operations are accounted for in accordance with the policies established in Note 2-f.

The detail of the equivalent value in thousands of euros of the assets and liabilities of the subsidiaries with functional currencies other than the euro at 31 December 2011 and 2010 is as follows:

| | Equivalent Value in Thousands of Euros | | | |
|---|---|---|---|---|
| | 31/12/11 | | 31/12/10 | |
| **Currency** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Chilean peso | 5,677 | 4,553 | 4,336 | 3,258 |
| Mexican peso (Note 2-g) | 51,082 | 27,996 | 417,988 | 359,439 |
| Argentine peso | 3,588 | 1,362 | 2,786 | 834 |
| Brazilian real (Note 3-d) | 558,220 | 351,593 | 216,995 | 104,165 |
| US dollar (Note 3-d) | 36,523 | 30,924 | 10,897 | 5,854 |
| Pound sterling | 3,163 | 2,429 | 1,900 | 1,213 |
| Algerian dinar | 2,848 | 1,892 | 1,611 | 1,446 |
| Turkish lira | 11,467 | 8,673 | 8,449 | 6,029 |
| Venezuelan bolivar | 463 | 328 | 236 | 226 |
| Indian rupee | 2,876 | 2,575 | 1,799 | 1,577 |
| Australian dollar | 203 | 70 | - | - |
| Colombian peso | 1,899 | 1,489 | - | - |
| **Total** | **678,009** | **433,884** | **666,997** | **484,041** |

The detail of the main foreign currency balances of subsidiaries is as follows:

| | Equivalent Value in Thousands of Euros | | | |
|---|---|---|---|---|
| | 31/12/11 | | 31/12/10 | |
| Nature of the Balances | Assets | Liabilities | Assets | Liabilities |
| Intangible assets (Note 2-g) | 267 | - | 261,174 | - |
| Property, plant and equipment | 74,707 | - | 70,492 | - |
| Non-current financial assets and deferred tax assets | 265,522 | - | 41,058 | - |
| Inventories | 135,543 | - | 74,769 | - |
| Trade and other receivables | 128,147 | - | 184,994 | - |
| Other current financial assets | 40,330 | - | 6,345 | - |
| Cash and cash equivalents | 33,493 | - | 28,165 | - |
| Non-current liabilities | - | 250,387 | - | 240,808 |
| Current liabilities | - | 183,497 | - | 243,233 |
| Other | - | - | - | - |
| **Total** | **678,009** | **433,884** | **666,997** | **484,041** |

## d) Use of estimates

In the consolidated financial statements of the CAF Group for 2011 estimates were occasionally made.

Although these estimates were made on the basis of the best information available at 31 December 2011 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated income statements.

There have not been any changes in accounting estimates with respect to 2010 that might have had a material impact on these consolidated financial statements.

## e) Comparative information

As required by IAS 1, the information relating to 2011 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with information relating to 2010.

The 2010 consolidated financial statements, which are included for comparison purposes, were also prepared in accordance with IFRSs as adopted by the European Union on a basis consistent with that applied in 2011.

As required by IAS 27 and IFRS 5, the consolidated income statement for 2010 was adapted to adequately reflect the operations classified as discontinued in the preceding period, as indicated in Note 2-g.

## f) Consolidated Group and basis of consolidation

### Scope of consolidation

The accompanying consolidated financial statements include the Parent and the companies over which it exercises control; control is defined as the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

The accompanying consolidated financial statements for the year ended 31 December 2011 were prepared from the separate accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Parent - see Note 1) at that date and of the subsidiaries and associates listed below:

| | % of Control or Influence | Location | Line of Business | Auditor |
|---|---|---|---|---|
| **Fully consolidated companies -** | | | | |
| **Industrial Subgroup** | | | | |
| CAF, S.A. | Parent | Guipúzcoa | Marketing and manufacture of railway equipment and components | Deloitte |
| CAF USA, Inc. | 100% | Delaware | Manufacturing | G. Thornton |
| CAF México, S.A. de C.V. | 100% | Mexico City | Marketing and manufacture of railway equipment and components | Deloitte |
| CAF Brasil Industria e Comercio, S.A. | 100% | Sao Paulo | Manufacturing and maintenance | Deloitte |
| CAF Argentina, S.A. | 100% | Buenos Aires | Repairs and maintenance | Ernst & Young |
| CAF Rail UK, Ltda. | 100% | Belfast | Repairs and maintenance | Deloitte |
| CAF Italia, S.R.L. | 100% | Rome | Repairs and maintenance | Deloitte |
| CAF Chile, S.A. | 100% | Santiago de Chile | Manufacturing and maintenance | Deloitte |
| CAF Francia, S.A.S. | 100% | Paris | Manufacturing and maintenance | Deloitte |
| CAF Turquía, L.S. | 100% | Istanbul | Manufacturing and maintenance | Deloitte |
| CAF Argelia, E.U.R.L. | 100% | Algiers | Manufacturing and maintenance | Deloitte |
| Trenes CAF Venezuela, C.A. | 99% | Caracas | Manufacturing and maintenance | Deloitte |
| Houston LRV 100, LLC. | 100% | Delaware | Manufacturing | - |
| CAF Rail Australia Pty. Ltd. | 100% | Queensland | Manufacturing and maintenance | - |
| CAF India Private Limited | 100% | Delhi | Manufacturing and maintenance | Deloitte |
| CFD Bagneres, S.A. | 100% | Paris | Manufacturing and maintenance | Deloitte |
| Trenes de Navarra, S.A.U. | 100% | Navarre | Manufacturing | Deloitte |
| Construcciones Ferroviarias de Madrid, S.L.U. | 100% | Madrid | Manufacturing | G. Thornton |
| Construcciones Ferroviarias - CAF Santana, S.A. | 83.73% | Jaén | Manufacturing | Deloitte |
| Tradinsa Industrial, S.A. | 96% | Lleida | Repairs and maintenance | Deloitte |
| CAF New Zealand Ltd | 100% | Auckland | Manufacturing and maintenance | - |
| CAF Sisteme Feroviare SRL | 100% | Bucharest | Manufacturing and maintenance | - |
| CAF Colombia, S.A.S. | 100% | Medellín | Manufacturing and maintenance | Deloitte |
| **Technology Subgroup** | | | | |
| CAF I+D, S.L. (Sole-Shareholder Company) | 100% | Guipúzcoa | R&D | - |
| Traintic, S.L. | 100% | Guipúzcoa | Electronic equipment | Bsk |
| Trainelec, S.L. | 100% | Guipúzcoa | Electronic power equipment | Deloitte |
| Nuevas Estrategias de Mantenimiento, S.L. | 85% | Guipúzcoa | Technology solutions | Bsk |
| Desarrollo Software Miramon 4, S.L. | 100% | Guipúzcoa | Software | Bsk |
| Bizkaia Ferroviaria, S.L. | 100% | Vizcaya | Engineering | Bsk |
| Centro de Ensayos y Análisis Cetest, S.L. | 100% | Guipúzcoa | Tests | Bsk |
| Lander Simulation and Training Solutions, S.A. | 57% | Guipúzcoa | Simulators | S.M. Audit |
| Geminys, S.L. | 100% | Guipúzcoa | Operating manuals | Alter |
| Seinalia, S.L. | 100% | Guipúzcoa | Signalling | Deloitte |

| | % of Control or Influence | Location | Line of Business | Auditor |
|---|---|---|---|---|
| Eliop Seinalia, S.L.U. | 100% | Madrid | Signalling | Deloitte |
| Eliop Otomatik Kontrol Sistemleri San. Ve Tic Limited Sirketi | 90% | Istanbul | Signalling | Deloitte |
| **Services Subgroup** | | | | |
| Actren, S.A. (*) | 51% | Madrid | Maintenance | Deloitte |
| Sermanfer, S.A. | 100% | Madrid | Maintenance | Audyge |
| Sefemex, S.A. de C.V. | 100% | Mexico City | Rendering of services | Almaguer |
| Corporación Trainemex, S.A. de C.V. | 100% | Mexico City | Administrative services | Almaguer |
| Inversiones en Concesiones Ferroviarias, S.A. | 100% | Guipúzcoa | Business development | Deloitte |
| Urbanización Parque Romareda, S.A. | 100% | Zaragoza | Holding company | - |
| Ctrens Companhia de Manutençao, S.A. | 100% | Sao Paulo | Lease services | Deloitte |
| Provetren, S.A. de C.V. | 100% | Mexico City | Lease services | Deloitte |
| Sermantren, S.A. de C.V. | 100% | Mexico City | Rendering of services | Almaguer |
| Ennera Energy and Mobility, S.L. | 100% | Guipúzcoa | Power generation | Bsk |
| Ennera Inversiones en Microgeneración, S.L.U. | 100% | Guipúzcoa | Power generation | Bsk |
| Sempere Componentes, S.L. | 100% | Guipúzcoa | Marketing | Bsk |
| Predictove Ingenieros, S.L. | 100% | Guipúzcoa | Predictive maintenance | Alter |
| Agarregune, S.L. | 100% | Guipúzcoa | Business development | - |
| Garraiotech, S.L. | 80% | Guipúzcoa | Logistics services | Bsk |
| **Construction Subgroup** | | | | |
| Constructora de Sistemas Ferroviarios, S.L. | 100% | Guipúzcoa | Equipment | Deloitte |
| Constructora Mexicana del Ferrocarril Suburbano, S.A. de C.V. | 100% | Mexico City | Equipment | Deloitte |
| **Companies accounted for using the equity method (Note 9)** | | | | |
| **Industrial Subgroup** | | | | |
| Compañía de Vagones del Sur, S.A. (**) | 29.3% | Jaén | Manufacturing | - |
| **Technology Subgroup** | | | | |
| Asirys Vision Technologies, S.A. | 22.33% | Guipúzcoa | Automated production | - |
| **Services Subgroup** | | | | |
| Ferrocarriles Suburbanos, S.A. de C.V. | 43.35% | Mexico City | Transport services | Deloitte |
| Plan Metro, S.A. | 40% | Madrid | Lease services | Deloitte |
| Consorcio Traza, S.A. (***) | 25% | Zaragoza | Holding company | Deloitte |

(*) Proportionately consolidated company.

(**) The Company owns all the shares of Ditecsa Jaén, S.L.

(***) The Company holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza.

## Changes in the scope of consolidation

In addition to the change explained in Note 2-g) below, in 2011 CAF New Zealand, Ltd, CAF Sisteme Feroviaire, S.R.L., CAF Colombia, S.A.S. and Ennera Inversiones en Microgeneración, S.L.U. were incorporated.

In 2011 ownership interests of 40% and 47.89% were acquired in Desarrollo Software Miramon 4, S.L. and Lets Ingenieros, S.L. (subsequently absorbed by Traintic, S.L.), respectively, for EUR 250 thousand and EUR 144 thousand, respectively, as a result of which all the shares of these two companies are now owned.

Also, since the non-controlling shareholder of Construcciones Ferroviarias - Caf Santana, S.A. did not subscribe any shares in the capital increase at the latter, the Group now has an ownership interest of 83.73% in that company (67% in 2010).

In addition to the assets and liabilities of Eliop Seinalia, S.L.U. acquired in 2010, the purchase agreement provided for the obligation for the seller to transfer its ownership interest (90%) in the Turkish subsidiary Eliop Otomatik Kontrol Sistemleri San Ve Tic for EUR 500 thousand. This amount was paid in 2010 although this subsidiary was effectively transferred in the first half of 2011, thereby giving rise to goodwill of EUR 217 thousand (see Note 7).

In 2010, the entire ownership interest in Jeudi Inversiones 2010, S.L. (now Eliop Seinalia, S.L.U.) was acquired. The company served as a vehicle for the acquisition of assets and liabilities relating to the infrastructure division of Núcleo Comunicaciones y Control, S.A. This acquisition was accounted for using the acquisition method. Of the total purchase price agreed upon (EUR 9.5 million), EUR 1.5 million remained outstanding at 31 December 2011 subject to the lapse of 18 months and 3 years from the acquisition date. In November 2010 the remaining 40% of the Group company CFD Bagneres, S.A. was acquired from the non-controlling shareholder for EUR 5,360 thousand. Also, the ownership interest of 1.63% held by the non-controlling shareholder of Trenes de Navarra, S.A. was acquired for EUR 270 thousand. In addition, the following companies were incorporated: CAF India Private Limited with share capital of EUR 116 thousand, Ctrens Companhia de Manutençao, S.A. with share capital of EUR 115 million, EUR 37 million of which had been paid at 31 December 2010, Provetren, S.A. de C.V. and Sermantren, S.A. de C.V. with share capital of EUR 3 thousand each and CAF Rail Australia Pty, Ltd. with share capital of EUR 74 thousand. Lastly, in 2010 capital was increased by EUR 11,385 thousand at Consorcio Traza, S.A.

## Consolidation method

"Subsidiaries" are defined as companies over which the Parent has the capacity to exercise control; control exists when the Parent has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities. This control is presumed to exist when the Parent owns directly or indirectly more than half of the voting power of the investee or, even if this percentage is lower, when there are agreements with other shareholders of the investee that give the Parent control. The financial statements of the subsidiaries are fully consolidated with those of the Parent. Accordingly, all material balances and effects of the transactions between consolidated companies are eliminated on consolidation.

Also, associates are companies over which the Parent is in a position to exercise significant influence, but not control or joint control. Usually this capacity arises because it holds -directly or indirectly- more than 20% of the voting power of the investee. In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations, less any impairment of the individual investments (in the case of transactions with an associate, the related profits or losses are eliminated in proportion to the Group's ownership interest).

"Joint ventures" are ventures in which the activity is subject to joint control, control being understood to be the power to manage the financial and operating policy of an entity. Joint ventures are proportionately consolidated in the consolidated financial statements, i.e. the financial statements of each venturer include the part of the assets, liabilities, expenses and income that corresponds to its percentage of ownership.

Translation of foreign currency financial statements

The financial statements in foreign currencies were translated to euros using the year-end exchange rate method, which consists of translating all the assets, rights and obligations to euros at the closing exchange rates and the income statement items at the average exchange rates for the year.

The difference between the amount of the foreign companies' equity translated at historical exchange rates (except for the profit or loss for the year, which is translated as stated above) and the asset value arising from the translation of the assets, rights and obligations at the closing exchange rates from 1 January 2004 is presented in equity under "Translation Differences" in the consolidated balance sheet, net of the portion of the difference that relates to non-controlling interests, which is recognised under "Equity - Non-Controlling Interests".

**g) Profit (Loss) from discontinued operations and assets classified as held for sale**

Discontinued operations

The detail of "Profit (Loss) for the Year from Discontinued Operations" in the consolidated income statements for the years ended 31 December 2011 and 2010 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | **2011** | **2010** |
| Profit (Loss) from discontinued operations | (27,228) | (18,272) |
| Gains (Losses) on disposal | 39,070 | - |
| **Total** | **11,842** | **(18,272)** |

On 25 August 2005, the Mexican Ministry of Communications and Transportation granted Ferrocarriles Suburbanos, S.A. de C.V. a concession to operate a railway line in Mexico (Note 7).

Due to various delays in the implementation of services and infrastructure not attributable to CAF, the income of the concession has been lower than expected since it came into operation.

Therefore, on 30 December 2011 the Parent, on the one hand, and the Mexican Ministry of Communications and Transportation ("SCT") and the Mexican National Infrastructure Fund ("the Fund") on the other, agreed on the financial restructuring of the concession for the operation of the suburban railway line between the Mexican municipalities of Cuautitlán and Buenavista ("the concession") operated by the subsidiary Ferrocarriles Suburbanos, S.A. de C.V. ("FFSS").

The most significant information on the financial restructuring is as follows:

– It was agreed that capital would be increased at FFSS through the conversion of debt (contingent debt fund -"fondo contingente para la deuda"-) into capital to be subscribed in full by the Fund. Under the agreement, the Fund acquired 49% of the company's share capital and the CAF Group's previously held 85% interest was diluted to 43%.

– The Fund granted FFSS new reimbursable aid through an increase in the contingent debt fund existing at that date to MXN 2,340 million.

– The term of the concession was extended until 2050.

As a result of these agreements, the economic results of FFSS are accounted for using the equity method in the CAF Group's consolidated financial statements since the CAF Group does not exercise control over the investment. The Group calculated the fair value of the investment by estimating future cash flows using certain assumptions regarding passenger numbers and other factors, as well as certain payments expected to be made to suppliers as a result of the arbitration proceedings in progress in relation to the infrastructure investments made (see Note 25), giving a fair value that approximates zero (see Note 9).

Accordingly, since this transactions fulfils all the requirements in IAS 27 and IFRS 5 on the loss of control and non-current assets classified as held for sale, these operations were classified as discontinued operations.

### Summary of assets and profit or loss of discontinued operations

Following is a detail of the assets (and associated liabilities) of operations classified as discontinued operations, the profit or loss of the discontinued operations included in the consolidated income statement and the related cash flows.

The profit or loss of discontinued operations was adapted to include operations classified as discontinued in the preceding period.

| | 31 December 2010 |
|---|---|
| | **Thousands of Euros** |
| Other intangible assets (Note 7) | 172,720 |
| Other non-current assets | 45,718 |
| **Total non-current assets** | **218,438** |
| Accounts receivable | 28,916 |
| Other current assets | 8,955 |
| **Total current assets** | **37,871** |
| **Total assets of discontinued operations** | **256,309** |
| **Total liabilities associated with assets of discontinued operations** | **(275,630)** |
| **Total net assets of discontinued operations** | **(19,321)** |

The detail of the main line items in the consolidated income statements relating to the lines of business classified as discontinued operations in 2011 up until their disposal and in 2010 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | **2011** | **2010** |
| **Discontinued operations** | | |
| Revenue | 28,688 | 28,245 |
| Procurements and changes in inventories | (938) | (443) |
| Depreciation and amortisation charge and change in operating provisions and allowances | (7,408) | (7,369) |
| Other expenses, net | (23,121) | (21,901) |
| Net finance costs and finance income | (32,033) | (27,307) |
| **Loss before tax** | **(34,812)** | **(28,775)** |
| Attributable income tax | 7,584 | 10,503 |
| **Loss from discontinued operations** | **(27,228)** | **(18,272)** |
| **Gains (Losses) on disposals** | | |
| Gains or (losses) due to reclassification of translation differences | (10,232) | - |
| Gains or (losses) due to derecognition of net assets | 47,760 | - |
| Gains or (losses) due to derecognition of non-controlling interests | 1,542 | - |
| Gains or (losses) due to remeasurement of the investment at fair value | - | - |
| **Total profit (loss) from discontinued operations** | **11,842** | **(18,272)** |
| Profit (Loss) before tax | 29,650 | (28,775) |
| Attributable income tax | (17,808) | 10,503 |
| **Total profit (loss) from discontinued operations** | **11,842** | **(18,272)** |

The detail of the assets and liabilities classified as assets and liabilities of discontinued operations at the date of loss of control is as follows:

| | Thousands of Euros |
|---|---|
| Current assets (*) | 41,425 |
| Non-current assets (Notes 7 and 18) | 194,020 |
| Current liabilities (**) | (31,484) |
| Non-current liabilities (**) | (251,721) |
| **Net assets** | **(47,760)** |

(*) Including cash and cash equivalents amounting to EUR 10,571 thousand.
(**) Including financial debt amounting to EUR 265,236 thousand.

The detail of the cash flows from operations classified as discontinued operations at 31 December 2011 and 2010 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2011 | 2010 |
| Cash flows from operating activities | 1,813 | 2,388 |
| Cash flows from investing activities | 6,815 | (1,739) |
| Cash flows from financing activities | (1,636) | (935) |
| **Cash flows from discontinued operations** | **6,992** | **(286)** |

### h) Correction of errors

In preparing the accompanying consolidated financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2010.

## 3. ACCOUNTING PRINCIPLES AND POLICIES AND MEASUREMENT BASES APPLIED

The principal accounting policies used by the CAF Group in preparing its consolidated financial statements at 31 December 2011 and 2010 were as follows:

### a) Intangible assets

Computer software and development projects for which there are no doubts as to their technical and commercial success are measured at their acquisition cost (or, where appropriate, at their accumulated production cost applied in accordance with inventory measurement bases - see Note 3-e). Computer software is amortised on a straight-line basis over five years from its acquisition (see Note 7). Development projects are amortised on a straight-line basis over five years from their acquisition or completion, or are recovered as an addition to the cost of the development-related contracts obtained over that period, in which case they are transferred to inventories (see Note 7).

Goodwill is recognised as an asset when it arises in an acquisition for valuable consideration in the context of a business combination. Goodwill is allocated to each of the cash-generating units to which the economic benefits of the business combination are expected to flow and is not amortised. Instead, these cash-generating units are tested for impairment at least once a year using the methodology described in Note 3-c and, where appropriate, are written down.

Impairment losses recognised for goodwill must not be reversed in a subsequent period.

## b) Property, plant and equipment

Items of property, plant and equipment are carried at cost revalued, where appropriate, pursuant to the applicable legislation, including Guipúzcoa Regulation 11/1996, of 5 December, and Guipúzcoa Regulation 13/1991, of 13 December, and the surplus resulting therefrom was treated as part of the cost of these assets, in accordance with IFRSs and pursuant to the alternative accounting treatment provided for by IFRS 1, whereby the fair value at the date of transition is used as the deemed cost for certain specific assets.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

In-house work performed by the consolidated companies on items of property, plant and equipment is recognised at the related accumulated production cost allocated in accordance with inventory measurement bases (see Note 3-e).

The items of property, plant and equipment are depreciated on a straight-line basis at rates based on the following years of estimated useful life:

| | Years of Estimated Useful Life |
|---|---|
| Buildings | 25 - 50 |
| Plant and machinery | 6 - 10 |
| Other fixtures, tools and furniture | 3 - 10 |
| Other items of property, plant and equipment | 10 |

In general, for items of property, plant and equipment requiring a period of over one year to get ready for their intended use, the capitalised costs include the borrowing costs incurred until the asset becomes operational, charged by the supplier or relating to specific- or general-purpose external financing loans that are directly attributable to the acquisition or production thereof.

## c) Impairment of assets

At each balance sheet date, the CAF Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets might have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is deemed to be the present value of estimated future cash flows.

If the recoverable amount of an asset is less than its carrying amount, the related impairment loss is recognised for the difference with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated income statement and a credit to "Property, Plant and Equipment" or "Intangible Assets", as appropriate, in the accompanying consolidated balance sheet.

Impairment losses recognised for an asset in prior years are reversed when there is a change in the estimates concerning the recoverable amount of the asset, increasing the carrying amount of the asset, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised, except in the case of the impairment of goodwill, which must not be reversed.

In 2011 impairment losses were recognised on certain intangible assets and items of property, plant and equipment (see Notes 7 and 8) after having performed the appropriate tests. In 2010 no impairment losses were recognised on non-current assets.

### d) Financial instruments

#### Trade and other receivables

Trade and other receivables are initially recognised at fair value in the consolidated balance sheet and are subsequently measured at amortised cost using the effective interest method.

The required adjustments are recognised for the difference between the recoverable amount of accounts receivable and their carrying amount determined as indicated in the preceding paragraph. At 31 December 2011, there were certain long-term accounts receivable not earning explicit interest, basically from public authorities (see Note 9). At 31 December 2010, there was an account receivable relating to the concession in Mexico (see Note 2-g).

The Group recognises an allowance for debts in an irregular situation due to late payment, administration, insolvency or other reasons, after performing a case-by-case collectability analysis. In 2011 and 2010, in addition to the effect of discounting described in Note 9, net write-downs of approximately EUR 451 thousand and EUR 533 thousand, respectively, were recognised for the accounts receivable (see Note 12).

#### Financial assets

In accordance with the classification criteria established by IAS 39, the Group classifies its financial assets in the following categories:

(1) Loans and other long-term receivables. Loans and other long-term receivables are initially recognised at fair value and are subsequently measured at amortised cost, using the effective interest method. The amortised cost is understood to be the initial cost minus principal repayments and any reduction for impairment or uncollectability. The effective interest rate is the discount rate that exactly matches the initial carrying amount of a financial instrument to all its cash flows.

(2) Held-to-maturity investments. Financial assets with fixed maturity that the Group has the intention and ability to hold to maturity. These investments are also initially recognised at fair value and are subsequently measured at amortised cost.

(3) Held-for-trading financial assets, classified as at fair value through profit or loss. These assets must have any of the following characteristics:

- They have been classified as held-for-trading because they have been acquired to generate a profit through short-term fluctuations in their prices.
- They are financial derivatives provided that they have not been designated as part of a hedging relationship.
- They have been included in this category of assets since initial recognition.

At 31 December 2011 and 2010, the Group did not have any assets in this category.

(4) Available-for-sale financial assets. Available-for-sale financial assets are measured at fair value. This category includes financial assets acquired that are not held for trading purposes and are not classified as held-to-maturity investments or as financial assets at fair value through profit or loss. Substantially all these assets relate to equity investments. These investments are also presented in the consolidated balance sheet at their fair value which, in the case of unlisted companies, is obtained using alternative methods, such as comparisons with similar transactions or, if sufficient information is available, discounting the expected cash flows. Changes in fair value are recognised with a charge or credit to "Valuation Adjustments" in the consolidated balance sheet until the investments are disposed of, at which time the cumulative balance of this heading relating to the investments disposed of is recognised in full in the consolidated income statement.

Equity investments in unlisted companies, the market value of which cannot be measured reliably using alternative methods such as those indicated in the preceding paragraph, are measured at cost.

Management of the CAF Group decides on the most appropriate classification for each asset on acquisition.

### Cash and cash equivalents

"Cash and Cash Equivalents" in the accompanying consolidated balance sheet includes cash and demand deposits.

### Trade and other payables

Accounts payable are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate.

### Bank borrowings and other financial liabilities

Bank borrowings and other financial liabilities are initially recognised at the proceeds received, net of transaction costs, i.e. equivalent to the subsequent application of the amortised cost model, for which the effective interest rate is used. Borrowing costs are recognised in the consolidated income statement on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise (see Note 16).

### Derivative financial instruments

The Group uses derivative financial instruments to hedge the foreign currency risk to which its project contracts and certain investments in investees are exposed. Accordingly, the CAF Group has arranged forward currency contracts denominated mainly in US dollars, Swiss francs, pounds sterling, Brazilian reais and Swedish kronor (see Note 17).

Also, certain companies accounted for using the equity method have arranged interest rate hedges (see Note 17).

The Group reviews the conditions for a financial derivative to qualify for hedge accounting to ensure that such conditions are met, i.e.: (1) it hedges one of the following three types of risk: fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation; (2) it effectively eliminates any risk inherent to the hedged item or position throughout the projected term of the hedge; and (3) there is sufficient documentation to evidence that the financial derivative was arranged specifically to hedge certain balances or transactions and how it was intended to achieve and measure the effectiveness of the hedge, provided that this was consistent with the Group's risk management policy.

The CAF Group has defined financial risk management objectives and policies which set forth, in writing, the Group's policy in respect of the arrangement of derivatives and hedging strategy.

These financial instruments are initially recognised at acquisition cost. The changes in the fair value of the derivative financial instruments that were designated and effective as hedges are subsequently recognised as follows:

– In fair value hedges, the gains or losses arising on both the hedging instrument and the hedged item attributable to the type of risk being hedged are recognised directly under “Financial Profit (Loss)” in the accompanying consolidated income statement. The Group recognises as fair value hedges the hedges arranged for construction work when the necessary conditions are met for hedges of this nature (existence of a firm commitment).

– In cash flow hedges, the gains or losses attributable to the effective portion of the hedging instrument are recognised temporarily in equity under “Valuation Adjustments”. This method is used by the Group to hedge work in which the hedged risk is not a firm and signed commitment but rather a highly probable forecast transaction. To the extent that a highly probable transaction gives rise to a firm commitment, the amounts previously recognised in equity are reclassified to the consolidated income statement.

– In hedges of net investments in foreign operations, the gains or losses attributable to the portion of the hedging instrument qualifying as an effective hedge are recognised temporarily in equity under “Translation Differences”. This type of hedging was used for the equity of CAF USA, Inc. and CAF Brasil Industria e Comercio, S.A.

### e) Inventory measurement bases

Raw materials and other supplies and goods held for resale are measured at the lower of average acquisition cost and market value.

Work in progress and finished and semi-finished goods are presented net of costs already settled as described in Note 3-f and are measured as follows:

1. Materials and expenses allocated to each project: at the average acquisition or production cost.

2. Processing costs: based on standard hourly absorption rates for labour and direct and indirect production overheads, which do not differ significantly from actual hourly rates.

3. Borrowing costs: calculated on the basis of the financing requirements directly allocable to each project contract.

### f) Recognition of contract revenue and profit

For construction contracts, the Group generally recognises the income and profit or loss on each contract by reference to the estimated stage of completion of the contract, calculated on the basis of the actual hours incurred in each contract as a percentage of the estimated total hours, which is in keeping with other methods for determining the stage of completion on the basis of the costs incurred compared with the budgeted costs. Potential losses on project contracts are recognised in full when they become known or can be estimated.

Once the projected profit or loss on each contract has been determined, the Group applies the following correcting coefficients to determine actual profit or loss and revenue:

– With a percentage of completion of between 0% and 10%, no profit or revenue is recognised.

– From 10% onwards, a percentage of profit and revenue equal to the percentage of completion is recognised.

Based on the revenue realised, the projected profit or loss on each contract (calculated as described above) and the stage of completion, inventories are derecognised for the amount of the settled costs with a charge to the related consolidated income statement and a credit to "Inventories" on the asset side of the consolidated balance sheet (see Note 11).

Sales of products, basically rolling stock, are recognised when the goods and title thereto are transferred.

### g) Customer advances and completed contract work

The difference between revenue recognised on each project (see Note 3-f) and the amount billed for the project is recognised as follows:

– If the difference is positive, under "Trade and Other Receivables - Trade Receivables for Sales and Services - Amounts to Be Billed for Work Performed" (see Note 11).

– If the difference is negative, under "Trade and Other Payables - Other Accounts Payable" (see Note 11).

### h) Foreign currency transactions and other obligations

The foreign currency asset and liability balances of consolidated foreign companies were translated to euros as explained in Note 2-f. The other non-monetary foreign currency asset and liability balances were translated at the exchange rate prevailing at each year-end, and the positive and negative exchange differences between the exchange rate used and the year-end exchange rate were recognised in profit or loss. Foreign currency transactions for which the CAF Group decided to arrange financial derivatives in order to mitigate the foreign currency risk are recognised as described in Note 3-d.

### i) Current/Non-current classification

In the accompanying consolidated balance sheet debts due to be settled within twelve months are classified as current items and those due to be settled within more than twelve months as non-current items.

### j) Government grants

The Group companies recognise government grants received as follows:

1. Grants related to assets are recognised at the amount granted, as a reduction of the value of the subsidised asset when they are definitively granted and are credited to profit or loss in proportion to the period depreciation on the assets for which the grants were received.

2. Grants related to income are recognised in profit or loss when they are definitively granted by reducing the expenses for which the grants are intended to compensate.

### k) Post-employment benefits

The consolidated companies' legal and contractual obligations to certain of their employees in relation to retirement and death are met through premiums under defined contribution and defined benefit plans to external funds deposited or in the process of being externalised at independent insurance companies (see Note 15). The contributions made in 2011 and 2010 for various groups of employees amounted to EUR 4,938 thousand and EUR 3,460 thousand, respectively, and were recognised under "Staff Costs - Other Expenses" in the accompanying consolidated income statements. The Group did not have any amounts payable or any actuarial deficits in this connection at 31 December 2011 or 2010. Also, in accordance with the applicable collective agreement, the Parent contributes an additional 1.75% of the annual base salary of all its employees to a pension plan (EPSV) (see Note 22).

Also, the Parent's directors, based on the conclusions of a study conducted by their legal advisers, considered in 2006 that a historical right of certain of its employees had vested. In accordance with the accrual basis of accounting, the Group recognised a provision of EUR 989 thousand (31 December 2010: EUR 931 thousand), calculated by an independent valuer, under "Trade and Other Payables- Other Accounts Payable" in the consolidated balance sheet at 31 December 2011. This amount is the difference between the present value of the defined benefit obligations and the fair value of the assets qualifying as plan assets. The future modifications to the obligations assumed will be recognised in profit or loss for the related year. In 2011 the Group paid EUR 360 thousand (2010: EUR 438 thousand) and recognised provisions amounting to EUR 418 thousand (2010: EUR 635 thousand) with a charge to "Staff Costs - Wages and Salaries" in the accompanying consolidated income statement (see Note 22).

In the assumptions applied in the actuarial study performed by an independent third party, the future obligations were discounted at a market rate, taking into account salary increases similar to those made in the past.

Lastly, certain subsidiaries have defined contribution obligations to their employees pursuant to the legislation in the countries in which they are located, and the related provisions at 31 December 2011 were recognised under "Long-Term Provisions" EUR 427 thousand and "Short-Term Provisions" EUR 553 thousand (see Note 20).

### l) Early retirements and termination benefits

At 31 December 2011, "Non-Current Financial Liabilities - Other Financial Liabilities" and "Trade and Other Payables - Other Accounts Payable" in the accompanying consolidated balance sheet included EUR 7,029 thousand and EUR 3,535 thousand, respectively (2010: EUR 7,592 thousand and EUR 3,509 thousand, respectively) relating to the present value estimated by the Parent's directors of the future payments to be made to employees who in December 2011 had entered into hand-over contracts and employees who could sign such contracts up until the end of the term of the collective agreement. This provision was recognised with a charge of EUR 4,423 thousand (2010: EUR 2,980 thousand) to "Staff Costs - Wages and Salaries" in the consolidated income statement for 2011 (see Notes 18 and 22).

## m) Income tax

The expense for income tax and other similar taxes applicable to the foreign consolidated entities are recognised in the consolidated income statement, except when it results from a transaction the result of which is recognised directly in equity, in which case the related tax is also recognised in equity.

The current income tax expense is calculated by aggregating the current tax arising from the application of the tax rate to the taxable profit (tax loss) for the year, after deducting the tax credits allowable for tax purposes, plus the change in deferred tax assets and liabilities, and any tax loss and tax credit carryforwards.

Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, unless, in general, the temporary difference arises from the initial recognition of goodwill. Also, deferred tax assets are recognised for tax loss and tax credit carryforwards and temporary differences to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax assets can be utilised, which at the consolidated CAF Group are deemed to be those that will be earned in the period covered by its backlog.

Pursuant to IFRSs, deferred tax assets and deferred tax liabilities are classified as non-current assets and liabilities.

## n) Leases

The CAF Group classifies as finance leases lease arrangements whereby the lessor transfers all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

Expenses arising in connection with leased assets are allocated to “Other Operating Expenses” in the consolidated income statement over the term of the lease on an accrual basis.

## ñ) Provisions and contingencies

When preparing the consolidated financial statements, the Parent's directors made a distinction between:

a) Provisions: credit balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits that is uncertain as to its amount and/or timing will be required to settle the obligations.

b) Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group.

The consolidated financial statements include all the provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements but rather are disclosed, unless the possibility of an outflow in settlement is considered to be remote.

The compensation receivable from a third party on settlement of the obligation is recognised as an asset, provided there is no doubt that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalised, as a result of which the Group is not liable, in which case, the compensation will be taken into account when estimating, if appropriate, the amount of the related provision.

Under current legislation, the Group is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be quantified reasonably are recognised as an expense in the year in which the decision to terminate the employment relationship is taken. The accompanying consolidated financial statements do not include any provision in this connection since no situations of this nature are expected to arise.

### o) Environmental matters

The Group recognises environmental investments at acquisition or production cost, net of the related accumulated depreciation, and classifies them by nature in the appropriate "Property, Plant and Equipment" accounts (see Notes 8 and 21-c).

Expenses incurred in order to comply with the applicable environmental legislation are classified by nature under "Other Operating Expenses" in the accompanying consolidated income statement (see Note 21-c).

Also, Royal Decree 1370/2006 regulating the Spanish National $CO_2$ Emission Allowances Plan for 2008-2012 was approved in 2006 and subsequently amended by Royal Decree 1030/2007. In accordance with this legislation, the Group must hold $CO_2$ emission allowances allocated to it on or after 1 January 2008. Under the Royal Decree, the allocation at zero cost of individual emission allowances for each facility for 2008-2012 was approved. The Group was allocated allowances for the emission of 154,365 tonnes of $CO_2$ in that period. If the emissions exceed the volume of allowances allocated, emission allowances will have to be acquired in the market.

From 2005 onwards European companies that emit $CO_2$ in the course of their business activity must deliver in the first few months of the following year $CO_2$ emission allowances equal to the emissions made during the year.

In 2011 the Group emitted 17,087 tonnes of $CO_2$ (2010: 17,735 tonnes), whereas it had been allocated allowances for the emission of 30,927 tonnes for 2011 (2010: 30,927 tonnes). As a result, the Group did not recognise any liability at year-end.

### p) Revenue and expense recognition

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

In accordance with the accounting principle of prudence, the Group only recognises realised revenue at year-end, whereas foreseeable contingencies and losses, including possible losses, are recognised as soon as they become known.

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment is established. In any case, interest and dividends from financial assets accrued after the date of acquisition are recognised as income in the income statement.

"Other Non-current Liabilities" in the accompanying consolidated balance sheets at 31 December 2011 and 2010 includes the amount relating to the income received early which is earmarked for meeting the estimated costs of major repairs to be made under maintenance contracts.

### q) Consolidated statements of cash flows

The following terms are used in the consolidated statements of cash flows, which were prepared using the indirect method, with the meanings specified:

– Cash flows: inflows and outflows of cash and cash equivalents.

– Operating activities: the principal revenue-producing activities of the consolidated Group companies and other activities that are not investing or financing activities.

– Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

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

### r) Earnings per share

Basic earnings per share are calculated by dividing net profit attributable to the Parent by the weighted average number of ordinary shares outstanding during the year.

In the consolidated financial statements of the CAF Group for the years ended 31 December 2011 and 2010, the basic earnings per share and the diluted earnings per share coincided since there were no dilutive potential shares outstanding in those years.

### s) Discontinued operations

A discontinued operation is a sufficiently significant line of business that it has been decided to abandon and/or sell, whose assets, liabilities and net profit or loss can be distinguished physically, operationally and for financial reporting purposes. Income and expenses of discontinued operations are presented separately in the consolidated income statement.

In 2011 the concession for the Buenavista-Cuautitlán railway line in Mexico City was classified as a discontinued operation (see Notes 2-g and 6).

### t) Related party transactions

The Group carries out all of its transactions with related companies on an arm's length basis. Also, transfer prices are adequately supported and, therefore, the Parent's directors consider that there are no material risks in this connection that might give rise to significant liabilities in the future.

### u) Administrative concessions

Concessions represent arrangements between a public sector grantor and CAF Group companies to provide public services such as preventative, corrective and inspection services for various railway lines through the operation of infrastructure. Revenue from providing the service may be received directly from the users or, sometimes, through the concession grantor itself, which regulates the prices for providing the service.

The concession right generally means that the concession operator has an exclusive right to provide the service under the concession for a given period of time, after which the infrastructure assigned to the concession and required to provide the service are returned to the concession grantor, generally for no consideration. The concession arrangement must provide for the management or operation of the infrastructure. Another common feature is the existence of obligations to acquire or construct all the items required to provide the concession service over the concession term.

These concession arrangements are accounted for in accordance with IFRIC 12, Service Concession Arrangements. In general, a distinction must be drawn between two clearly different phases: the first in which the concession operator provides construction or upgrade services which are recognised as an intangible asset or a financial asset by reference to the stage of completion pursuant to IAS 11, Construction Contracts, and a second phase in which the concession operator provides a series of infrastructure maintenance or operation services, which are recognised in accordance with IAS 18, Revenue.

An intangible asset is recognised when the demand risk is borne by the concession operator and a financial asset is recognised when the demand risk is borne by the concession grantor since the operator has an unconditional contractual right to receive cash for the construction or upgrade services. These assets also include the amounts paid in relation to the fees for the award of the concessions.

## 4. DISTRIBUTION OF THE PROFIT OF THE PARENT

The distribution of the Parent's profit for 2011 proposed by its directors is as follows:

| Distribution | Thousands of Euros |
|---|---|
| To voluntary reserves | 55,668 |
| Dividends | 35,995 |
| **Total** | **91,663** |

## 5. FINANCIAL AND OTHER RISK MANAGEMENT POLICY

The CAF Group engages in activities that are exposed to various financial risks: market risk (including foreign currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk, cash flow interest rate risk and the risk of variances in relation to projects.

The risk management policy adopted by the CAF Group focuses on the uncertainty of financial markets and aims to minimise the potential adverse effects on the Group's financial performance.

The Group's Financial Department identifies, assesses and hedges financial risks by establishing policies to manage overall risk and specific risk areas such as foreign currency, interest rate and liquidity risks, the use of derivative instruments and the investment of cash surpluses.

### a) Market risk

The various CAF Group companies operate on an international stage and, therefore, are exposed to foreign currency risk in their foreign currency transactions (particularly the US dollar, the Brazilian real, the pound sterling and the Swedish krona).

The Group companies use forward contracts to hedge the foreign currency risk arising from future commercial transactions and recognised assets and liabilities. This risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency other than the functional currency of the Group (the euro).

The Group's standard practice is to fully hedge the market risk associated with contracts denominated in currencies other than its functional currency. The hedges are intended to avoid the impact of currency fluctuations on the various agreements entered into, so that the Group's results present fairly its industrial and service activity.

For the most significant raw materials, the Group places the orders and agrees on the price when each new project commences. The risk of a rise in raw material prices having an adverse effect on the contractual margins is thus hedged.

### b) Credit risk

Most of the Group's accounts receivable and work in progress relate to various customers in different countries. Contracts generally include progress billings.

The Group's standard practice is to hedge against the risk of termination or default associated with export contracts by taking out export credit insurance policies, pursuant to the rules in the OECD Consensus concerning instruments of this nature.

At 31 December 2011 and 2010, the Group had insured a portion of its accounts receivable from customers in certain countries abroad through credit insurance policies.

### c) Liquidity risk

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to cover all the Group's financial obligations effectively (see Notes 13 and 16).

The CAF Group manages liquidity risk by:

– Seeking the highest possible level of self-financing with respect to each of the contracts

– Maintaining a strong short-term liquidity position

– Maintaining undrawn credit balances

### d) Cash flow and fair value interest rate risk

The Group's interest rate risk arises on borrowings.

The Group's policy is to resort in exceptional circumstances only to third-party borrowings in the form of short-term debt tied to floating market indices, normally Euribor, thereby substantially mitigating its interest rate risk exposure.

In this regard, the financial liabilities at 31 December 2011 related substantially in full to the concession obtained in Brazil (see Notes 9 and 16) and consisted of structured project finance granted by Banco Nacional do Desenvolvimento (BNDES), without recourse to the other Group companies, tied to the TJLP (a reference rate published by the Central Bank of Brazil) and, therefore, the Group's financial statements could be affected by fluctuations in this reference rate. Had interest rates at 31 December 2011 been 100 basis points higher or lower, with all the other variables unchanged, the borrowing costs relating to this loan would have been EUR 500 thousand higher/lower.

At 31 December 2010, the Group's financial debt related to the debt of the Mexican concession operator (see Notes 2-g, 7 and 16).

### e) Risks arising from variances with respect to project budgets

Variances from project budgets that served as the basis for drawing up the various bids are covered through the use of a detailed system for reporting each of the cost items, which compares on an ongoing basis the budget for that item with the actual situation regarding the costs of each project. In this way, these data are monitored on an ongoing basis over the life of the projects using an internal process created for this purpose in which all the departments involved in the projects participate.

### f) Risks arising from harm caused to third parties as a result of deficiencies or delays in the provision of services

All CAF's plants use the most advanced technology available in the market and state-of-the-art techniques in order to optimise production pursuant to the ISO 9001 and 9002 standards.

CAF also implements a highly conservative policy of taking out insurance to protect itself sufficiently from the economic consequences for the Group of any of these risks materialising.

## 6. SEGMENT REPORTING

### a) Basis of segmentation

Segment reporting on the CAF Group in the accompanying consolidated financial statements is structured as follows:

– On a basis by business unit, distinguishing between the "railway", "rolling stock and components" and "concession business" operating activities.

– Information based on the Group's geographical location is also included.

### b) Basis and methodology for segment reporting

Segment revenue and expenses relate to those directly attributable to the segment and, accordingly, do not include interest, dividends or gains or losses arising from the disposal of investments or on debt redemption or repayment transactions. Segment assets and liabilities are those directly related to its operating activities or to the ownership interests in companies engaged in that activity.

In accordance with the basis for primary segment reporting set forth in IFRSs (IFRS 8, Operating Segments), the CAF Group considered the three business units operated by it as its primary segments, since it considers that its organisational and management structure and its system of internal reporting to its managing and executive bodies are such that the risks and returns are affected predominantly by the fact that its operations are performed in one or the other business area, taken to be all of the related products and services. Accordingly, the segmentation is made up of the CAF Group's identifiable components that are subject to risks and returns that are different from those of components operating in other economic environments.

Therefore, based on historical experience, the following segments were defined that the Group considers fulfil the internal consistency requirements with regard to the similarity of their economic conditions, policies or the risks derived from the applicable regulations, exchange rates or proximity of activities and their differences with respect to the other segments for the same reasons:

– Railway

– Rolling stock and components

– Concession business

In 2011 the concession business was discontinued (see Note 2-g).

Segment information on the businesses is as follows:

| Segmentation by Business Unit | Railway | Rolling Stock and Components | Concession Business | General | Inter-Segment | Total |
|---|---|---|---|---|---|---|
| | 2011 (Thousands of Euros) | | | | | |
| **REVENUE:** | | | | | | |
| External sales | 1,657,372 | 67,727 | - | - | - | 1,725,099 |
| Inter-segment sales | - | 36,740 | - | - | (36,740) | - |
| **Total sales** | **1,657,372** | **104,467** | **-** | **-** | **(36,740)** | **1,725,099** |
| **PROFIT OR LOSS:** | | | | | | |
| Profit (Loss) from operations | 171,253 | 7,434 | - | (13,904) | - | 164,783 |
| Financial profit (loss) (*) | (24,817) | - | - | 7,202 | - | (17,615) |
| Share of net results of associates | (3,301) | - | - | - | - | (3,301) |
| **Profit (Loss) before tax** | **143,135** | **7,434** | **-** | **(6,702)** | **-** | **143,867** |
| Income tax (*) | - | - | - | (14,260) | - | (14,260) |
| **Profit (Loss) for the year from continuing operations** | **143,135** | **7,434** | **-** | **(20,962)** | **-** | **129,607** |
| Profit from discontinued operations | - | - | 11,842 | - | - | 11,842 |
| Loss attributable to non-controlling interests | 287 | - | 4,446 | - | - | 4,733 |
| **Profit (Loss) attributable to the Parent** | **143,422** | **7,434** | **16,288** | **(20,962)** | **-** | **146,182** |
| Depreciation and amortisation charge (Notes 2-g, 7 and 8) | 27,464 | 8,951 | - | 373 | - | 36,788 |
| **ASSETS** | **1,718,441** | **102,530** | **-** | **559,828** | **-** | **2,380,799** |
| **LIABILITIES** | **1,466,740** | **18,190** | **-** | **228,605** | **-** | **1,713,535** |
| Intangible asset and property, plant and equipment additions (Notes 7 and 8) | 40,042 | 2,772 | - | - | - | 42,814 |
| **OTHER ITEMS NOT AFFECTING CASH FLOWS:** | | | | | | |
| Asset impairment - Income (Expense) (Notes 7, 8 and 9) | (17,600) | - | - | (9,666) | - | (27,266) |

| | 2010 (Thousands of Euros) | | | | | |
|---|---|---|---|---|---|---|
| **Segmentation by Business Unit** | **Railway** | **Rolling Stock and Components** | **Concession Business** | **General** | **Inter-Segment** | **Total** |
| **REVENUE:** | | | | | | |
| External sales | 1,516,063 | 47,143 | - | - | - | 1,563,206 |
| Inter-segment sales | - | 43,976 | - | - | (43,976) | - |
| **Total sales** | **1,516,063** | **91,119** | **-** | **-** | **(43,976)** | **1,563,206** |
| **PROFIT OR LOSS:** | | | | | | |
| Profit (Loss) from operations | 168,503 | 366 | - | (12,225) | - | 156,644 |
| Financial profit (loss) (*) | - | - | - | 2,794 | - | 2,794 |
| Share of net results of associates | (702) | - | (144) | - | - | (846) |
| **Profit (Loss) before tax** | **167,801** | **366** | **(144)** | **(9,431)** | **-** | **158,592** |
| Income tax (*) | - | - | - | (14,880) | - | (14,880) |
| **Profit (Loss) for the year from continuing operations** | **167,801** | **366** | **(144)** | **(24,311)** | **-** | **143,712** |
| Profit from discontinued operations | 3,241 | - | (24,218) | 2,705 | - | (18,272) |
| Loss attributable to non-controlling interests | 551 | - | 3,633 | - | - | 4,184 |
| **Profit (Loss) attributable to the Parent** | **171,593** | **366** | **(20,729)** | **(21,606)** | **-** | **129,624** |
| Depreciation and amortisation charge (Notes 2-g, 7 and 8) | 23,213 | 7,749 | - | 316 | - | 31,278 |
| **ASSETS** | **1,288,396** | **106,315** | **228,321** | **618,266** | **(17,605)** | **2,223,693** |
| **LIABILITIES** | **1,258,747** | **18,795** | **275,632** | **114,840** | **(17,605)** | **1,650,409** |
| Intangible asset and property, plant and equipment additions (Notes 7 and 8) | 64,393 | 8,267 | 1,569 | - | - | 74,229 |
| **OTHER ITEMS NOT AFFECTING CASH FLOWS:** | | | | | | |
| Asset impairment - Income (Expense) (Notes 7 and 9) | (5,296) | - | - | (9,080) | - | (14,376) |

(*) The borrowing costs relating to specific-purpose borrowings and asset impairment are included in the segment involved. The remaining financial profit or loss and the income tax expense are included in the "General" column since various legal entities coincide and there is no reasonable basis for allocating them to the segments

Assets and liabilities for general use and the results generated by them, of which the cash and other current financial asset items are noteworthy, were not allocated to the other segments. Similarly, the reconciling items arising from the comparison of the result of integrating the financial statements of the various business segments (prepared using management criteria) with the CAF Group's consolidated financial statements were not allocated.

The external sales figure of the railway segment in 2011 includes sales of goods amounting to EUR 1,465,952 thousand (2010: EUR 1,394,254 thousand).

The information based on geographical location is as follows:

a) The breakdown of sales by geographical area at 31 December 2011 and 2010 is as follows (thousands of euros):

| Geographical Area | 2011 | % | 2010 | % |
|---|---|---|---|---|
| Spain | 435,293 | 25.23 | 639,032 | 40.88 |
| Abroad (*) | 1,289,806 | 74.77 | 924,174 | 59.12 |
| **Total** | **1,725,099** | **100.00** | **1,563,206** | **100.00** |

(*) Most of the sales to foreign markets are performed by the Parent located in Spain.

b) The distribution of net investments in property, plant and equipment by geographical area at 31 December 2011 and 2010 is as follows (in thousands of euros):

| Geographical Area | 2011 | 2010 |
|---|---|---|
| Spain | 210,121 | 228,937 |
| Abroad | 78,418 | 72,030 |
| **Total** | **288,539** | **300,967** |

## 7. OTHER INTANGIBLE ASSETS

The changes in the years ended 31 December 2011 and 2010 in "Other Intangible Assets" and in the related accumulated amortisation were as follows:

| | Thousands of Euros | | | | |
|---|---|---|---|---|---|
| | **Administrative Concessions** | **Development Expenditure** | **Computer Software and Other** | **Goodwill** | **Total** |
| **Cost at 31/12/09** | | | | | |
| Cost | 157,131 | 34,750 | 11,557 | 5,892 | 209,330 |
| Accumulated amortisation | (11,161) | (18,781) | (9,588) | - | (39,530) |
| **Net** | **145,970** | **15,969** | **1,969** | **5,892** | **169,800** |
| **Cost** | | | | | |
| Translation differences | 35,350 | (3) | 5 | - | 35,352 |
| Changes in the scope of consolidation (Note 2-f) | - | 9,495 | 240 | - | 9,735 |
| Additions or charge for the year | 1,569 | 14,360 | 1,713 | - | 17,642 |
| Transfers | - | - | - | - | - |
| Disposals or reductions | (11) | (47) | (5) | (5,296) | (5,359) |
| **Cost at 31/12/10** | **194,039** | **58,555** | **13,510** | **596** | **266,700** |
| Translation differences | (25,769) | 2 | (30) | - | (25,797) |
| Changes in the scope of consolidation (Note 2-f) | (168,270) | - | - | 217 | (168,053) |
| Additions or charge for the year | - | 11,058 | 1,195 | - | 12,253 |
| Transfers | - | 676 | (630) | - | 46 |
| Transfers to inventories | - | (4,767) | - | - | (4,767) |
| Disposals or reductions | - | - | (78) | - | (78) |
| **Cost at 31/12/11** | **-** | **65,524** | **13,967** | **813** | **80,304** |
| **Accumulated amortisation** | | | | | |
| Translation differences | (2,777) | 3 | (3) | - | (2,777) |
| Changes in the scope of consolidation (Note 2-f) | - | (519) | (63) | - | (582) |
| Additions or charge for the year | (7,381) | (3,515) | (475) | - | (11,371) |
| Transfers to inventories | - | - | - | - | - |
| Disposals or reductions | - | 18 | 3 | - | 21 |
| **Accumulated amortisation at 31/12/10** | **(21,319)** | **(22,794)** | **(10,126)** | **-** | **(54,239)** |
| Translation differences | 3,528 | (2) | 4 | - | 3,530 |
| Changes in the scope of consolidation (Note 2-f) | 25,263 | - | (4) | - | 25,259 |
| Additions or charge for the year | (7,472) | (6,541) | (758) | - | (14,771) |
| Transfers | - | 25 | 1 | - | 26 |
| Transfers to inventories | - | 165 | - | - | 165 |
| Disposals or reductions | - | - | 71 | - | 71 |
| **Accumulated amortisation at 31/12/11** | **-** | **(29,147)** | **(10,812)** | **-** | **(39,959)** |
| **Impairment** | | | | | |
| Recognised in 2011 | - | (8,965) | - | (581) | (9,546) |
| **Net balance at 31/12/10** | **172,720** | **35,761** | **3,384** | **596** | **212,461** |
| **Net balance at 31/12/11** | **-** | **27,412** | **3,155** | **232** | **30,799** |

The amount recognised under "Administrative Concessions" at 31 December 2010 relates to the gross cost incurred and the related accumulated depreciation and amortisation of the assets required to operate the concession in Mexico, totalling EUR 278,688 thousand and EUR 21,319 thousand, respectively, net of the grants received, which amounted to EUR 84,649 thousand. At 31 December 2010, the Group had recognised under "Other Accounts Receivable" an amount measured at amortised cost of EUR 24,540 thousand arising from certain amounts receivable as a result of delays not attributable to the Group. On 5 August 2009, in accordance with the terms of the concession, the Group notified the Mexican Ministry of Communications and Transportation in due time and form of the existence of a force majeure event defined in accordance with the terms and conditions of the concession, due mainly of a lower number of users of the railway. On 30 December 2011, an agreement was entered into for the financial restructuring of the concession, which led to the loss of control thereover (see Note 2-g).

The additions in 2011 and 2010 recognised under "Development Expenditure" relate to the costs incurred in projects for new products, including most notably the new high speed train and a new suburban train platform for European customers.

In 2011 an impairment loss of EUR 8,965 thousand was recognised with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in relation to the various development projects that, per estimates made by the directors, do not meet the requirement relating to their expected future economic and financial profitability.

As discussed in Note 3-a, in 2011 the Group transferred approximately EUR 4,602 thousand of capitalised development expenditure relating to projects to various contracts obtained that incorporated the technology developed.

The detail, by company, of the goodwill is as follows (in thousands of euros):

| | Thousands of Euros | |
|---|---|---|
| | **31/12/11** | **31/12/10** |
| Eliot Automatic Control Sistemleri San. Ve Tic | 217 | - |
| Lets Ingenieros, S.L. | - | 48 |
| Garraiotech, S.L. | - | 445 |
| Predictove Ingenieros, S.L. | - | 88 |
| Other | 15 | 15 |
| **Total** | **232** | **596** |

Based on the estimates and projections available to the Group's directors and the forecast cash attributable to the cash-generating units to which the goodwill was allocated, an impairment loss of EUR 581 thousand was recognised on these assets with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated income statement (an impairment loss of EUR 5,296 thousand was recognised in this connection in 2010).

## 8. PROPERTY, PLANT AND EQUIPMENT

The changes in the years ended 31 December 2011 and 2010 in the various property, plant and equipment accounts and in the related accumulated depreciation were as follows:

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | Land and Buildings | Plant and Machinery | Other Fixtures, Tools and Furniture | Other Items of Property, Plant and Equipment | Advances and Property, Plant and Equipment in the Course of Construction | Total |
| **Balance at 31/12/09** | | | | | | |
| Cost | 212,417 | 215,878 | 18,219 | 23,205 | 12,145 | 481,864 |
| Accumulated depreciation | (60,667) | (123,015) | (7,938) | (15,611) | - | (207,231) |
| **Net** | **151,750** | **92,863** | **10,281** | **7,594** | **12,145** | **274,633** |
| **Cost** | | | | | | |
| Changes in the scope of consolidation (Note 2-f) | - | 8 | 128 | 124 | - | 260 |
| Additions | 5,517 | 21,116 | 2,279 | 3,342 | 14,338 | 46,592 |
| Transfers | 18,428 | 2,084 | (1,209) | 2,621 | (22,265) | (341) |
| Disposals or reductions | (297) | (2,117) | (99) | (30) | - | (2,543) |
| Translation differences | 4,563 | 1,730 | 321 | 478 | 660 | 7,752 |
| **Balance at 31/12/10** | **240,628** | **238,699** | **19,639** | **29,740** | **4,878** | **533,584** |
| Changes in the scope of consolidation (Note 2-f) | 7 | - | 17 | 8 | - | 32 |
| Additions | 5,651 | 12,519 | 620 | 571 | 11,200 | 30,561 |
| Transfers | 100 | 11,310 | 555 | (3,168) | (8,791) | 6 |
| Disposals or reductions | (480) | (3,605) | (1,027) | (599) | (3) | (5,714) |
| Translation differences | (3,431) | (1,500) | (237) | (246) | 114 | (5,300) |
| Transfers to inventories | - | (37) | (13) | (292) | - | (342) |
| **Balance at 31/12/11** | **242,475** | **257,386** | **19,554** | **26,014** | **7,398** | **552,827** |
| **Accumulated depreciation** | | | | | | |
| Changes in the scope of consolidation (Note 2-f) | - | (1) | (3) | (3) | - | (7) |
| Additions or charge for the year | (5,778) | (17,705) | (1,645) | (2,148) | - | (27,276) |
| Transfers | (1,747) | 1,554 | 297 | 76 | - | 180 |
| Disposals or reductions | 41 | 2,111 | 41 | 25 | - | 2,218 |
| Translation differences | (168) | (247) | (36) | (50) | - | (501) |
| **Accumulated depreciation at 31/12/10** | **(68,319)** | **(137,303)** | **(9,284)** | **(17,711)** | **-** | **(232,617)** |
| Changes in the scope of consolidation (Note 2-f) | - | - | - | (19) | - | (19) |
| Additions or charge for the year | (5,935) | (19,463) | (1,355) | (2,672) | - | (29,425) |
| Transfers | (127) | (211) | (76) | 363 | - | (51) |
| Disposals or reductions | 480 | 3,529 | 314 | 293 | - | 4,616 |
| Translation differences | 168 | 224 | 48 | 48 | - | 488 |
| Transfers to inventories | - | 1 | 2 | - | - | 3 |
| **Accumulated depreciation at 31/12/11** | **(73,733)** | **(153,223)** | **(10,351)** | **(19,698)** | **-** | **(257,005)** |
| **Impairment** | | | | | | |
| Recognised in 2011 | (7,283) | - | - | - | - | (7,283) |
| **Impairment at 31/12/11** | **(7,283)** | **-** | **-** | **-** | **-** | **(7,283)** |
| **Net balance at 31/12/10** | **172,309** | **101,396** | **10,355** | **12,029** | **4,878** | **300,967** |
| **Net balance at 31/12/11** | **161,459** | **104,163** | **9,203** | **6,316** | **7,398** | **288,539** |

In 2011 and 2010 the Group made investments in order to increase and enhance its production capacity. These investments were aimed mainly at the urban development of land, the adaptation of buildings for their use as offices, improvements to plant and other environmental improvements made to the rolling stock unit at the Beasain plant, the start-up of the general warehouse at the plant in Brazil, the acquisition of machinery for the plant in the US and improvements to the plant in France (see Note 21-c).

At 31 December 2011 and 2010, the Group had firm capital expenditure commitments amounting to approximately EUR 10,074 thousand and EUR 6,683 thousand, respectively.

The consolidated companies take out insurance policies to adequately cover their property, plant and equipment. At 31 December 2011 and 2010, the insurance policies taken out covered the carrying amount of the property, plant and equipment at those dates.

At 31 December 2011 and 2010, the gross cost of fully depreciated assets in use amounted to approximately EUR 147,758 thousand and EUR 143,086 thousand, respectively.

The losses incurred on property, plant and equipment disposals in 2011 amounted to approximately EUR 770 thousand and were recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated income statement (the related gain in 2010 amounted to EUR 37 thousand).

As a result of the impairment test conducted by the Group of a facility in Spain in view of the low volume of activity projected for the coming years, an impairment loss on property, plant and equipment of EUR 7,283 thousand was recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated income statement for 2011. The impairment loss was calculated on the basis of a study of selling prices for land, buildings and certain items of machinery performed by an independent valuer, and the related costs to sell were deducted from those selling prices.

The Group deducts the amount of any grants received for the acquisition of an asset from the carrying amount of the asset acquired. At 31 December 2011, the net amount of the grants received not yet allocated to profit or loss totalled EUR 6,927 thousand (31 December 2010: EUR 8,615 thousand). EUR 2,994 thousand were allocated to income in this connection in 2011 (2010: EUR 1,402 thousand), and this amount was recognised under "Depreciation and Amortisation Charge" in the accompanying consolidated income statement.

The directors consider that there were no indications of impairment of the Group's assets at 31 December 2011 or 2010 other than those described in this Note.

## 9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND NON-CURRENT FINANCIAL ASSETS

The changes in the years ended 31 December 2011 and 2010 in "Investments Accounted for Using the Equity Method" and "Non-Current Financial Assets" were as follows:

| | Thousands of Euros | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Investments in Associates | Equity Instruments | | Other Financial Assets | | Derivative Financial Instruments (Note 17) | Loans and Receivables | | Total |
| | Cost | Cost | Allowance | Cost | Allowance | Fair Value | Cost | Allowance | |
| **Balance at 31/12/09** | **12,191** | **22,641** | **-** | **1,219** | **-** | **1,239** | **57,339** | **(30,451)** | **64,178** |
| Changes in the scope of consolidation (Note 2-f) (*) | 11,385 | - | - | (7) | - | - | 176 | - | 11,554 |
| Additions or charge for the year (*) | (6,597) | 320 | - | 143 | - | 2,025 | 20,239 | (9,671) | 6,459 |
| Disposals or reductions (*) | - | (298) | - | (309) | - | - | (495) | 2,680 | 1,578 |
| Transfers and write-offs | - | - | - | - | - | (1,239) | (19,297) | 10,464 | (10,072) |
| **Balance at 31/12/10** | **16,979** | **22,663** | **-** | **1,046** | **-** | **2,025** | **57,962** | **(26,978)** | **73,697** |
| Changes in the scope of consolidation (Note 2-f) | 2,055 | - | - | 41 | - | - | - | - | 2,096 |
| Translation differences | - | - | - | (22) | - | (23) | (7,793) | 1,265 | (6,573) |
| Additions or charge for the year | (3,766) | 467 | (440) | 826 | - | 21,862 | 367,158 | (13,820) | 372,287 |
| Disposals or reductions | - | (11) | - | (96) | - | - | (702) | - | (809) |
| Transfers and write-offs | - | - | - | - | - | (2,025) | (8,559) | 5,576 | (5,008) |
| Hedges (Note 17) | (3,710) | - | - | - | - | - | - | - | (3,710) |
| **Balance at 31/12/11** | **11,558** | **23,119** | **(440)** | **1,795** | **-** | **21,839** | **408,066** | **(33,957)** | **431,980** |

(*) Including the exchange rate effect.

The detail of the Group's non-current financial assets at 31 December 2011 and 2010, by nature and category for valuation purposes, is as follows:

| | Thousands of Euros | | | | |
|---|---|---|---|---|---|
| | 31/12/11 | | | | |
| **Financial Assets: Nature / Category** | **Available-for-Sale Financial Assets** | **Loans and Receivables** | **Held-to-Maturity Investments** | **Hedging Derivatives** | **Total** |
| Equity instruments | 22,679 | - | - | - | 22,679 |
| Hedging derivatives (Note 17) | - | - | - | 21,839 | 21,839 |
| Other financial assets | 151 | 374,109 | 1,644 | - | 375,904 |
| **Long-term / non-current** | **22,830** | **374,109** | **1,644** | **21,839** | **420,422** |

| Financial Assets: Nature / Category | Thousands of Euros | | | | |
|---|---|---|---|---|---|
| | 31.1210 | | | | |
| | Available-for-Sale Financial Assets | Loans and Receivables | Held-to-Maturity Investments | Hedging Derivatives | Total |
| Equity instruments | 22,663 | - | - | - | 22,663 |
| Hedging derivatives | - | - | - | 2,025 | 2,025 |
| Other financial assets | 151 | 30,984 | 895 | - | 32,030 |
| **Long-term / non-current** | **22,814** | **30,984** | **895** | **2,025** | **56,718** |

The detail, by maturity, of "Non-Current Financial Assets" is as follows (in thousands of euros):

**2011**

| | 2013 | 2014 | 2015 | 2016 and Subsequent Years | Total |
|---|---|---|---|---|---|
| Loans and receivables | 72,074 | 119,145 | 48,010 | 134,880 | 374,109 |
| Held-to-maturity investments | 830 | 113 | 33 | 668 | 1,644 |
| Hedging derivatives | 10,404 | 5,083 | 5,815 | 537 | 21,839 |
| **Total** | **83,308** | **124,341** | **53,858** | **136,085** | **397,592** |

**2010**

| | 2012 | 2013 | 2014 | 2015 and Subsequent Years | Total |
|---|---|---|---|---|---|
| Loans and receivables | 4,298 | 9,535 | 12,965 | 4,186 | 30,984 |
| Held-to-maturity investments | 164 | 35 | - | 696 | 895 |
| Hedging derivatives | 2,025 | - | - | - | 2,025 |
| **Total** | **6,487** | **9,570** | **12,965** | **4,882** | **33,904** |

## a) Investments in associates

Relevant information on the investments in associates accounted for using the equity method is as follows (in thousands of euros):

| Name | Location | Line of business | Ownership Interest Direc | Ownership Interest Indirec | Investments in Associates | Basic Financial Data (1) Share Capital | Basic Financial Data (1) Reserves, Share Premium and Accumulated Profits (Losses) (Note 17) | Basic Financial Data (1) 2011 Loss | Revenue | Assets |
|---|---|---|---|---|---|---|---|---|---|---|
| Compañía de Vagones del Sur, S.A. | Jaén (Spain) | Manufacturing | - | 35% (2) | - | 3,703 | (1,366) | (2,337) | 497 | 23,354 |
| Asirys Vision Technologies, S.A. | Guipúzcoa (Spain) | Automated production | - | 22.33% (3) | 41 | 154 | 5 | - | - | 166 |
| Plan Metro, S.A. (6) | Madrid (Spain) | Lease services | - | 40% (4) | - | 60 | 26,227 | (5,966) | - | 438,111 |
| Consorcio Traza, S.A. (6) | Zaragoza (Spain) | Holding company | 25% (5) | - | 11,517 | 490 | 46,082 | (389) | 8,843 | 245,550 |
| Ferrocarriles Suburbanos, S.A. de C.V. (6) (7) | Mexico City | Transport services | 28.05% | 15.30% (4) | - | 194,688 | (100,523) | - | 28,640 | 293,487 |
| | | | | | **11,558** | | | | | |

**(1)** After adjustments and unification for consolidation purposes (in thousands of euros).
**(2)** Through CAF Santana, S.A., investee also 83.73% owned. The Company owns all of the shares of Ditecsa Jaén, S.A.
**(3)** Through CAF I+D, S.L.
**(4)** Through Inversiones en Concesiones Ferroviarias, S.A.
**(5)** The consolidated company holds an 80% ownership interest in the S.E.M. Los Tranvías de Zaragoza.
**(6)** Audited by Deloitte.
**(7)** The individual data relating to this investment included in the foregoing table include the matters indicated in Note 2-g and the margin on transactions within the scope of consolidation prior to the date on which control was lost.

| | Thousands of Euros 2011 | Thousands of Euros 2010 |
|---|---|---|
| **Beginning balance** | **16,979** | **12,191** |
| Profits of companies and adjustment to margins | (3,301) | (846) |
| Adjustment to margins | (465) | (5,751) |
| Gains and losses on hedges (Note 17) | (3,710) | - |
| Disposals or reductions | - | - |
| Changes in the scope of consolidation (Note 2-f) | 2,055 | 11,385 |
| **Ending balance** | **11,558** | **16,979** |

In 2011 various capital increases were carried out at Consorcio Traza, S.A. and subscribed by the Group, which paid EUR 2,055 thousand (2010: EUR 11,385 thousand).

### b) Non-current investment securities

| Name | % of Ownership | Cost of the Investment (Thousands of Euros) 2011 | 2010 |
|---|---|---|---|
| Alquiler de Trenes, A.I.E. | 5 | 1,202 | 1,202 |
| Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A. | 10.31 | 13,220 | 13,220 |
| Ferromovil 3000, S.L. | 10 | 3,181 | 3,181 |
| Alquiler de Metros, A.I.E. | 5 | 66 | 66 |
| Plan Azul 07, S.L. | 5.2 | 1,381 | 1,381 |
| Arrendadora de Equipamientos Ferroviarios, S.A. | 15 | 1,908 | 1,908 |
| Iniciativa FIK, A.I.E. | 6.25 | 1,372 | 1,656 |
| FIK Advanlife, S.L. | 6 | 1 | 1 |
| Albali Señalización, S.A. | 9 | 298 | - |
| Other | | 50 | 48 |
| | | **22,679** | **22,663** |

At 31 December 2011 and 2010, these assets had been pledged to secure a financing agreement entered into by Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A. and a bank on 16 February 2004.

In addition, since 2008 the Group has held shares representing 6.25% and 6% of the share capital of Iniciativa FIK, A.I.E. and FIK Advanlife S.L., respectively, whose company object is the research, development and use of scientific and technological knowledge. The par value of the shares amounted to EUR 3,125 thousand and EUR 313 thousand, respectively. The Group has outstanding payments for these shares amounting to EUR 1,313 thousand (31 December 2010: EUR 1,469 thousand), payable in six-monthly payments of EUR 156 thousand each. In 2011 the Group wrote down its investment in Iniciativa FIK, AIE on the basis of its estimate of the recoverable amount of the investment, after taking into account the outstanding payments.

All the investments were measured at cost since their market value could not be determined reliably (see Note 3-d).

### c) Derivative financial instruments

"Derivative Financial Instruments" includes the fair value of the foreign currency hedges expiring at long term (see Note 17).

## d) Loans and receivables

The detail of loans and receivables is as follows (thousands of euros):

| | 31/12/11 | 31/12/10 |
|---|---|---|
| Loans to employees | 4,236 | 3,673 |
| Share ownership scheme obligations | 17,664 | 30,690 |
| Provisions for share ownership scheme | (6,967) | (15,647) |
| Non-current tax receivables and payables (Note 19) | 57,842 | 22,834 |
| Provisions for tax payables (Note 19) | (19,728) | (11,331) |
| Non-current trade receivables | 312,111 | - |
| Allowance for non-current trade receivables | (7,262) | - |
| Loans to associates (Note 10) | 15,104 | - |
| Other | 1,109 | 765 |
| **Total** | **374,109** | **30,984** |

### Loans to employees

In accordance with the agreements entered into with employees, the Parent grants various loans earning interest at below market rates and maturing between 10 and 15 years. The Company does not discount these amounts since it considers that the effect of discounting this amount is scantly material.

### Share ownership scheme

The share ownership scheme was set up in 1994 to promote permanent employees' ownership of CAF's share capital through the creation of Cartera Social S.A. This company is the owner of CAF, S.A.'s shares and eight employees or former employees of the Parent act as trustees thereat. Since that date, Cartera Social, S.A. has sold the rights on the shares it owns in CAF, S.A. to the Parent.

Non-Current Financial Assets - Loans and Receivables" and "Other Current Financial Assets" in the accompanying consolidated balance sheet include the investment in the aforementioned rights which belong to the share ownership scheme acquired from Cartera Social, S.A. The sole purpose of acquiring these rights was to resell them after several years to the Parent's employees.

This scheme was implemented basically in three phases. The first began in 1994 with the acquisition by the Parent of 632,000 rights on CAF, S.A. shares owned by Cartera Social, S.A. for EUR 26.9 million. The second involved the acquisition of 210,150 rights in 2005 for EUR 14.3 million. At the end of 2007 the third phase was agreed upon with the acquisition of 171,747 additional rights at an acquisition cost for CAF, S.A. of EUR 50.7 million.

Since the Parent purchased the aforementioned rights at a higher price than the sum of the price at which it sold them to its employees and the contributions made to the scheme by Cartera Social, S.A., the Parent incurred losses of EUR 49.6 million on the purchases of the aforementioned rights, which were recognised in full in previous years, including the applicable adjustments.

The majority of the rights not yet sold to employees at 31 December 2011 relate to the last phase in 2007. All of the schemes were set up under similar terms and conditions.

As a result of the foregoing, at 31 December 2011, the Parent had recognised a gross amount of EUR 17,664 thousand (2010: EUR 30,690 thousand) in relation to these rights under "Non-Current Financial Assets - Loans and Receivables" in the accompanying consolidated balance sheet at 31 December 2011.

In order to reduce the cost of the rights acquired to their net recoverable amount, at 31 December 2011, the Group recognised an impairment loss of EUR 16,374 thousand of which EUR 6,967 thousand related to the impairment of non-current financial assets (EUR 29,173 thousand at 31 December 2010, of which EUR 15,647 thousand related to impairment of non-current financial assets) and the remainder to the impairment of current financial assets. At 31 December 2011, the portion of this asset expected to be sold within one year and the related impairment loss were recognised under "Other Current Financial Assets" in the consolidated balance sheet at that date (see Note 13). In 2011 rights with a cost and impairment loss amounting to approximately EUR 18,643 thousand and EUR 9,691 thousand, respectively, were sold (2010: EUR 7,042 thousand and EUR 946 thousand, respectively).

With regard to this obligation, Cartera Social, S.A. is the sole owner of the shares of CAF, S.A. and, consequently, is entitled to exercise all the related dividend and voting rights corresponding to it as shareholder of the Parent. Accordingly, CAF, S.A. does not have any rights, obligations or risks with respect to the economic profit or loss that might arise at Cartera Social, S.A. The Parent is only obliged to sell at a fixed price and the employees are obliged to acquire the aforementioned rights in 84 similar monthly instalments from the date on which each phase of the scheme is implemented. The aforementioned shares are owned by Cartera Social, S.A. until the employee exercises his/her right, which cannot occur prior to termination of the employment relationship of each employee with CAF, S.A. During this period, Cartera Social, S.A. finances ownership of these shares essentially with the amount paid by CAF, S.A. to purchase the aforementioned rights

At 31 December 2011 and 2010, Cartera Social, S.A. owned 1,013,897 CAF, S.A. shares, equal to 29.56% of its share capital (see Note 14).

### Non-current tax receivables

At 31 December 2011, the Group recognised EUR 57,842 thousand under "Non-Current Financial Assets - Loans and Receivables" in connection with the VAT refundable by foreign tax authorities (31 December 2010: EUR 22,834 thousand). In 2011 a provision of EUR 9,666 thousand was recognised (2010: EUR 9,080 thousand) with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated income statement based on the estimates made regarding the recovery of this tax.

### Non-current trade receivables

Non-current trade receivables include EUR 46,331 thousand relating to accounts receivable from non-Group third parties that are not expected to be collected at short term, relating basically to public authorities, as a result of which the related amounts were reclassified to long term. The Group considers that these amounts will be collected at more than one year and recognised an allowance of EUR 7,262 thousand at long term, together with another of EUR 8,125 thousand at short term under "Trade and Other Receivables - Trade Receivables for Sales and Services" in the accompanying consolidated balance sheet. The two allowance were recognised with a charge to "Finance Costs" in the accompanying consolidated income statement.

On 19 March 2010, the Group company Ctrens-Companhía de Manutençao, S.A. and Companhia Paulista de Trens Metropolitanos (CPTM) entered into a 20-year concession arrangement for the manufacture of 36 trains and the provision of preventative and corrective maintenance and general overhaul services and services to modernise the trains on the Line 8- Diamante line in Sao Paulo (Brazil).

The main features of this arrangement, in addition to those indicated above, are as follows:

– The payments are guaranteed by CPTM. The concession operator must meet certain minimum capital requirements, in both absolute terms and in terms of a percentage of assets.

– The concession operator must secure with a bank guarantee of BRL 100,713 thousand (approximately EUR 42 million) the proper performance of its obligations to CPTM.

– All the assets associated with the concession, except for the capital goods, acquired, produced or implemented by the concession operator to provide the services under the concession arrangement must be returned to CPTM at the end of the concession term for no consideration.

On 31 May 2010, the Group company Provetren, S.A. de C.V. and the Mexican Ministry of Communications and Transportation (STC) entered into a 15-year concession arrangement for the construction of 30 trains and for the provision of integral and general overhaul services for Line 12 of the Mexico City underground.

The main features of this arrangement, in addition to those indicated above, are as follows:

– The consideration payable by STC is secondarily guaranteed by a system of trusts with funds from the "Remanentes de las Participaciones Federales" (Federal Participation Surpluses).

– The concession operator must secure with a bank guarantee 10% of the payments expected to be received by it in the current year.

– All the assets associated with the concession, except for the capital goods, acquired, produced or implemented by the concession operator to provide the services under the concession arrangement must be returned to STC at the end of the concession term for no consideration.

These concessions are accounted for in accordance with IFRIC 12, Concession Arrangements, since the related requirements are met, and, pursuant to IFRIC 12, the various services provided (construction, operation/maintenance and financing) were separated. Therefore, the Group recognised under "Non-Current Financial Assets - Loans and Receivables" EUR 265,780 thousand at 31 December 2011 relating to the construction phase recognised by reference to the stage of completion (see Notes 3-f and 11).

The maintenance services started to be provided basically in the first half of 2011 in the case of the Line 8 (Brazil) concession and they are expected to start to be provided in the first half of 2012 in the case of the Line 12 (Mexico) concession.

## 10. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The detail of the transactions performed with associates and other related parties that were not eliminated on consolidation (see Note 2-f) is as follows:

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| **Company** | **Services Provided or Sales Recognised** | **Services Received or Purchases Recognised** | **Finance Income** | **Services Provided or Sales Recognised** | **Services Received or Purchases Recognised** | **Finance Income** |
| Plan Metro, S.A. | 72,546 | - | 329 | 211,738 | - | - |
| Consorcio Traza, S.A. (*) | 20,275 | - | - | 37,245 | - | - |
| Compañía de Vagones del Sur, S.A. | 8 | - | 89 | 2 | - | 85 |
| Ferrocarriles Suburbanos, S.A. de C.V. | 10,759 | - | - | 14,095 | 1,049 | - |
| | **103,588** | **-** | **418** | **263,080** | **1,049** | **85** |

(*) Including transactions with the S.E.M. Los Tranvías de Zaragoza.

The margins earned on transactions performed with associates were duly eliminated on consolidation in proportion to the percentage of ownership therein (see Note 9-a).

As a result of the transactions performed in 2011, those performed in previous years and the advances granted, the Group's main balances with investees that were not fully consolidated at 31 December 2011 and 2010 were as follows (see Note 2-f):

| | Thousands of Euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | 31/12/11 | | | | 31/12/10 | | |
| Company | Accounts Receivable | Accounts Payable | Net Advances Based on Stage of Completion | Long-Term Loans (Note 9-d) | Accounts Receivable | Accounts Payable | Net Advances Based on Stage of Completion |
| Plan Metro, S.A. (Note 9-d) | 7,930 | - | 50,938 | 15,104 | 3,272 | - | 100,782 |
| S.E.M. Los Tranvías de Zaragoza, S.A. | 3,509 | - | (2,918) | - | 8,504 | - | - |
| Compañía de Vagones del Sur, S.A. | - | - | - | - | 3,242 | - | - |
| Ferrocarriles Suburbanos, S.A. de C.V. | 16,660 | 112 | - | - | - | - | - |
| | **28,099** | **112** | **48,020** | **15,104** | **15,018** | **-** | **100,782** |

In 2011 the subsidiary Inversiones en Concesiones Ferroviarias, S.A. granted a participating loan to Plan Metro, S.A. to enable the latter to meet its financial obligations with an estimated limit of EUR 29 million. This loan earns interest that makes the net present value of the loan equal to the projected cash flows and matures on 31 July 2029.

"Trade and Other Receivables - Other Accounts Receivable" in the consolidated balance sheet at 31 December 2011 includes an account receivable from Cartera Social, S.A. for waiver rights amounting to EUR 14,004 thousand (31 December 2010: EUR 4,763 thousand) (see Notes 9 and 14-a).

## 11. INVENTORIES AND CONSTRUCTION CONTRACTS

The detail of inventories at 31 December 2011 and 2010 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 31/12/11 | 31/12/10 |
| Raw materials and other procurements, work in progress and finished and semi-finished goods (Note 21) | 345,347 | 330,989 |
| Advances to suppliers | 20,117 | 23,917 |
| | **365,464** | **354,906** |

At 31 December 2011, the Group had firm raw materials purchase commitments amounting to approximately EUR 357,639 thousand (see Note 26) (31 December 2010: EUR 652,363 thousand).

The consolidated companies take out insurance policies to adequately insure their inventories. At 31 December 2011 and 2010, the insurance policies taken out covered the carrying amount of the inventories at those dates.

As described in Note 3-a, the Group capitalises the borrowing costs incurred in the year related to inventories that have a production cycle of more than one year. The amount capitalised in this connection prior to the allocation to income of sales in 2011 was EUR 1,040 thousand (2010: EUR 333 thousand).

### Construction contracts

The detail of the cumulative amount of costs incurred and of profits recognised (less the related losses recognised) and the amount of advances received at 31 December 2011 and 2010 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | **31/12/11** | **31/12/10** |
| Deferred billings (Note 9) | 265,780 | - |
| Deferred billings (asset) (Notes 3-g and 12) | 380,331 | 259,856 |
| Prebillings (liability) (Note 3-g) | (505,826) | (506,701) |
| **Net** | **140,285** | **(246,845)** |
| Costs incurred plus profits and losses recognised based on stage of completion | 2,057,093 | 2,476,518 |
| Billings made excluding advances | (1,410,982) | (2,216,671) |
| Advances received | (505,826) | (506,701) |
| **Net** | **140,285** | **(246,854)** |

The retentions at 31 December 2011 amounted to EUR 6,905 thousand (31 December 2010: EUR 2,681 thousand).

## 12. TRADE AND OTHER RECEIVABLES

The detail of "Trade and Other Receivables" at 31 December 2011 and 2010 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | **31/12/11** | **31/12/10** |
| Trade receivables - in euros | 568,101 | 510,728 |
| Trade receivables - in foreign currency (Note 3-h) | 210,201 | 159,808 |
| Write-downs (Note 3-d) | (1,587) | (1,136) |
| | **776,715** | **669,400** |

These balances receivable arose mainly as a result of the recognition of the stage of completion, as described in Note 3-f. A portion of these balances, approximately 51% (2010: 61%), has been billed to customers. The remainder relates to "Amounts to Be Billed for Work Performed" (see Note 11). The main balances are in euros.

At 31 December 2011, 37% of the billed balances receivable related to the top five customers (31 December 2010: 53%).

The detail of balances past due at 31 December 2011 and 2010 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | **31/12/11** | **31/12/10** |
| Past due > 90 days | 26,946 | 34,052 |
| Past due > 180 days (*) | 51,648 | 34,704 |
| | **78,594** | **68,756** |

(*) This item includes retentions made by customers on invoices (see Note 11).

On the basis of a case-by-case analysis of past-due balances, the CAF Group considered that at 31 December 2011, EUR 1,587 thousand (31 December 2010: EUR 1,136 thousand) posed a collection risk and recognised the corresponding write-downs.

## 13. OTHER CURRENT FINANCIAL ASSETS

The detail of "Other Current Financial Assets" at 31 December 2011 and 2010 is as follows:

**2011**

| | Thousands of Euros | | | | |
|---|---|---|---|---|---|
| **Financial Assets: Nature/Category** | **Available-for-Sale Financial Assets** | **Loans and Receivables (Note 9-d)** | **Held-to-Maturity Investments** | **Hedging derivatives (Note 17)** | **Total** |
| Spanish government debt securities | - | - | - | - | - |
| Financial derivatives | - | - | - | 17,561 | 17,561 |
| Other financial assets | - | 3,970 | 213,988 | - | 217,958 |
| **Short term/current** | **-** | **3,970** | **213,988** | **17,561** | **235,519** |

**2010**

| | Thousands of Euros | | | | |
|---|---|---|---|---|---|
| **Financial Assets: Nature/Category** | **Available-for-Sale Financial Assets** | **Loans and Receivables (Note 9-d)** | **Held-to-Maturity Investments** | **Hedging derivatives (Note 17)** | **Total** |
| Spanish government debt securities | - | - | 3,360 | - | 3,360 |
| Financial derivatives | - | - | - | 14,972 | 14,972 |
| Other financial assets | - | 8,376 | 331,759 | - | 340,135 |
| **Short term/current** | **-** | **8,376** | **335,119** | **14,972** | **358,467** |

The Group's policy is to invest cash surpluses in government debt securities, repos, short-term deposits, term deposits or promissory notes. These are short-term investments, the results of which are recognised with a credit to "Finance Income" in the accompanying consolidated income statement. In 2011 the Group recognised income in this connection amounting to EUR 8,285 thousand (2010: EUR 9,696 thousand).

## 14. EQUITY

### a) Share capital of the Parent

At 31 December 2011 and 2010, the Parent's share capital consisted of 3,428,075 fully subscribed and paid shares of EUR 3.01 par value each, traded by the book-entry system, all of which are listed on the stock exchange.

The shareholder companies or entities holding over 3% of the Parent's share capital at 31 December 2011 and 2010 were as follows:

| | Percentage of Ownership in 2011 | Percentage of Ownership in 2010 |
|---|---|---|
| Cartera Social, S.A. (Notes 9 and 10) (*) | 29.56 | 29.56 |
| Gipuzkoa Donostia Kutxa (Note 20-b) (**) | 19.06 | 20.06 |
| BNP Paribas Securities Services | 5.47 | 5.47 |
| Banca Cívica, S.A (***) | 3.01 | - |
| Compañía Andaluza de Rentas e Inversiones, S.A. | - | 3.01 |

(*) The shareholders of this company are or have been employees of the Parent (see Note 9).

(**) Following the merger, the shares owned by Gipuzkoa Donostia Kutxa have been held by Kutxabank, S.A. since 1 January 2012.

(***) Banca Cívica, S.A. controls Compañía Andaluza de Rentas e Inversiones, S.A. through its 46% direct ownership in the latter and through its 100% holding in Corporación Empresarial Cajasol, SAU, which in turn owns 20% of the share capital of Compañía Andaluza de Rentas e Inversiones, S.A.

At the Annual General Meeting on 5 June 2010, the shareholders empowered the Board of Directors to acquire treasury shares within five years from that date. At the date of preparation of these consolidated financial statements, no treasury shares had been acquired since that resolution.

### b) Share premium

The share premium account balance has no specific restrictions on its use.

### c) Revaluation reserve

The amount held in this reserve in 2011 and 2010 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 31/12/11 | 31/12/10 |
| Revaluation of property, plant and equipment: | | |
| Land (IFRS 1) | 30,418 | 30,418 |
| Revaluation reserve Law 9/1983 | 7,954 | 7,954 |
| Revaluation reserve Guipúzcoa Decree 13/1991 | 11,379 | 11,379 |
| Revaluation reserve Guipúzcoa Regulation 11/1996 | 8,701 | 8,701 |
| | **58,452** | **58,452** |

#### Revaluation reserve Law 9/1983 and Guipúzcoa Decree 13/1991

Pursuant to current legislation, the balances of these accounts are unrestricted as to their use.

Revaluation reserve Guipúzcoa Regulation 11/1996

This balance can be used to offset accounting losses and to increase share capital, and the remainder, if any, can be taken to restricted reserves. If this balance were used in a manner other than that provided for in Guipúzcoa Regulation 11/1996, it would be subject to tax.

### d) Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 20% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

### e) Restricted reserves

The separate financial statements of the consolidated companies include reserves amounting to approximately EUR 15,436 thousand and EUR 13,893 thousand at 31 December 2011 and 2010, respectively, relating to the legal reserve, revaluation reserve, reserve for retired capital and other reserves which are restricted as to their use. Also, certain companies have reserves that are restricted as a result of financing agreements (see Note 16).

Until the balance of "Research and Development Expenditure" has been fully amortised, no dividends may be distributed unless the balance of the unrestricted reserves is at least equal to the amount of the unamortised balances. Accordingly, at 2011 year-end EUR 28,554 thousand of the reserves were restricted as to their use (2010: EUR 26,205 thousand).

### f) Translation differences

The breakdown, by company, of "Translation Differences" at 31 December 2011 and 2010 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | **31/12/11** | **31/12/10** |
| CAF México, S.A. de C.V. | (576) | 393 |
| CAF Brasil Ind. e C., S.A. | 4,854 | 10,424 |
| CAF Argentina, S.A. | (17) | 49 |
| CAF USA, Inc. | (209) | (171) |
| CAF Rail UK, Ltda. | (62) | (84) |
| CAF Chile, S.A. | 112 | 178 |
| Sefemex, S.A. de C.V. | (58) | (21) |
| Ferrocarriles Suburbanos, S.A. de C.V. | - | (9,139) |
| Constructora Mex. del Fer. Sub, S.A. de C.V. | (643) | (241) |
| Corporación Trainemex, S.A. de C.V. | (10) | 10 |
| CAF Turquía, L.S. | (414) | (26) |
| CAF Argelia, E.U.R.L. | (61) | (37) |
| CAF India Private Limited | (32) | 4 |
| Ctrens Companhia de Manutençao, S.A. | (7,992) | 806 |
| Trenes CAF Venezuela, C.A. | (1) | - |
| Provetren, S.A. de C.V. | 4 | - |
| Eliop Otomatik Kontrol Sistemleri San. Ve Tic. | (42) | - |
| CAF Rail Australia Pty, Ltd. | 35 | - |
| CAF Colombia, S.A.S. | 6 | - |
| | **(5,106)** | **2,145** |

## g) Non-controlling interests

The detail of "Equity - Non-Controlling Interests" in the accompanying consolidated balance sheets and of the changes therein in 2011 and 2010 is as follows:

| | Thousands of Euros |
|---|---|
| **Balance at 31 December 2009** | **12,946** |
| Loss attributable to non-controlling interests | (4,184) |
| Changes in the scope of consolidation | (212) |
| Other | 1,110 |
| **Balance at 31 December 2010** | **9,660** |
| Loss attributable to non-controlling interests | (4,733) |
| Translation differences | (363) |
| Changes in the scope of consolidation (Note 2-f) | (1,658) |
| Dividends | (86) |
| **Balance at 31 December 2011** | **2,820** |

## h) Capital management

The Group's capital management is aimed at achieving a financial structure that optimises the cost of capital while ensuring a sound financial position. This policy makes it possible to make the creation of value for shareholders compatible with access to financial markets at a competitive cost in order to meet both debt refinancing needs and the investment plan financing requirements not covered by funds generated by the business activities carried on.

The directors of the CAF Group consider that the fact that the leverage ratio with recourse to the Parent is minimal is a good indicator of the degree to which the objectives set are being achieved. At 31 December 2011 and 2010, most of the borrowings were directly assigned to activities such as the concessions in Brazil and Mexico (see Notes 3-u, 7 and 9). Leverage is taken to be the ratio of net financial debt to equity:

| | Thousands of Euros | |
|---|---|---|
| | **31/12/11** | **31/12/10** |
| Net financial debt: | | |
| Refundable advances (Note 15) | 69,180 | 66,127 |
| Bank borrowings - Non-current liabilities (Note 16) | 242,171 | 240,565 |
| Bank borrowings - Current liabilities (Note 16) | 5,878 | 20,344 |
| Current financial assets (Note 13) | (214,243) | (337,508) |
| Cash and cash equivalents | (86,214) | (55,705) |
| | **16,772** | **(66,177)** |
| Equity: | | |
| Of the Parent | 664,444 | 563,624 |
| Non-controlling interests | 2,820 | 9,660 |
| | **667,264** | **573,284** |

## 15. OTHER CURRENT AND NON-CURRENT FINANCIAL LIABILITIES AND OTHER OBLIGATIONS

The detail of the Group's financial liabilities at 31 December 2011 and 2010, by nature and category, for valuation purposes, is as follows:

| | Thousands of Euros | | | | |
|---|---|---|---|---|---|
| | 31/12/11 | | | | |
| **Financial Liabilities: Nature/Category** | **Held-for-Trading Financial Liabilities** | **Other Financial Liabilities at Fair Value through Profit or Loss** | **Accounts Payable** | **Hedging Derivatives** | **Total** |
| Bank borrowings (Note 16) | - | - | 242,171 | - | 242,171 |
| Derivatives (Note 17) | - | - | - | 19,314 | 19,314 |
| Other financial liabilities | - | - | 64,845 | - | 64,845 |
| **Non-current liabilities/ non-current financial liabilities** | **-** | **-** | **307,016** | **19,314** | **326,330** |
| Bank borrowings (Note 16) | - | - | 5,878 | - | 5,878 |
| Derivatives (Note 17) | - | - | - | 10,660 | 10,660 |
| Other financial liabilities | - | - | 17,436 | - | 17,436 |
| **Current liabilities/ current financial liabilities** | **-** | **-** | **23,314** | **10,660** | **33,974** |
| **Total** | **-** | **-** | **330,330** | **29,974** | **360,304** |

| | Thousands of Euros | | | | |
|---|---|---|---|---|---|
| | 31/12/10 | | | | |
| **Financial Liabilities: Nature/Category** | **Held-for-Trading Financial Liabilities** | **Other Financial Liabilities at Fair Value through Profit or Loss** | **Accounts Payable** | **Hedging Derivatives** | **Total** |
| Bank borrowings (Note 16) | - | - | 240,565 | - | 240,565 |
| Derivatives (Note 17) | - | - | - | 1,984 | 1,984 |
| Other financial liabilities | - | - | 64,640 | - | 64,640 |
| **Non-current liabilities/ non-current financial liabilities** | **-** | **-** | **305,205** | **1,984** | **307,189** |
| Bank borrowings (Note 16) | - | - | 20,344 | - | 20,344 |
| Derivatives (Note 17) | - | - | - | 4,262 | 4,262 |
| Other financial liabilities | - | - | 17,684 | - | 17,684 |
| **Current liabilities/ current financial liabilities** | **-** | **-** | **38,028** | **4,262** | **42,290** |
| **Total** | **-** | **-** | **343,233** | **6,246** | **349,479** |

The detail of the financial liabilities is as follows:

| | Thousands of Euros | |
|---|---|---|
| | **31/12/11** | **31/12/10** |
| Refundable advances | 54,673 | 53,358 |
| Employee benefit obligations | 7,457 | 8,342 |
| Other liabilities | 2,715 | 2,940 |
| | **64,845** | **64,640** |

The detail, by maturity in coming years, of other non-current financial liabilities is as follows (in thousands of euros):

| 2011 | |
|---|---|
| 2013 | 13,618 |
| 2014 | 9,285 |
| 2015 | 8,938 |
| 2016 | 8,552 |
| 2017 and subsequent years | 24,452 |
| **Total** | **64,845** |

| 2010 | |
|---|---|
| 2012 | 9,122 |
| 2013 | 10,915 |
| 2014 | 9,256 |
| 2015 | 8,339 |
| 2016 and subsequent years | 27,008 |
| **Total** | **64,640** |

## Refundable advances

Through research and development programmes the Group received certain grants to conduct research and development projects. This aid, which is recognised on the date it is effectively collected or, if applicable, when collected by the coordinator of the joint project, consists of:

– Grants to partially meet the expenses and costs of these projects.

– Refundable advances in the form of interest-free loans, which usually have an initial grace period of three years and are taken to income in a period of over ten years.

The changes in 2011 and 2010 in relation to the long-term portion of the aforementioned programmes (at present value) were as follows:

| | Thousands of Euros |
|---|---|
| | **Refundable Advances** |
| **Balance at 31/12/09** | **51,853** |
| Additions | 10,737 |
| Transfers to short term | (9,232) |
| **Balance at 31/12/10** | **53,358** |
| Additions | 11,239 |
| Transfers to short term | (9,924) |
| **Balance at 31/12/11** | **54,673** |

Also, the amount recognised in the short term relating to accounts payable for refundable advances amounted to EUR 14,507 thousand at 31 December 2011 (31 December 2010: EUR 12,769 thousand).

## Employee benefit obligations

The detail of the present value of the obligations assumed by the Group relating to post-employment benefits and long-term employee benefits, of the plan assets allocated for the coverage thereof, and of the amounts not recognised at the end of 2011 and 2010, is as follows (see Note 3-k):

| | Thousands of Euros | |
|---|---|---|
| | 31/12/11 | 31/12/10 |
| Present value of employee benefits- | 18,998 | 18,314 |
| Less - Fair value of plan assets | 18,009 | 17,383 |
| **Trade and other payables - Other accounts payable** | **989** | **931** |

The present value of the obligations was determined by qualified independent actuaries using the following actuarial techniques:

– Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

– Actuarial assumptions used: unbiased and mutually compatible. In general, the most significant actuarial assumptions used in the calculations were as follows:

| Actuarial Assumptions | 2011 | 2010 |
|---|---|---|
| Discount rate | 5.06% (1) | 4.58% |
| Mortality tables | PERM/F 2000P | PERM/F 2000P |
| Annual pension increase rate | 3% | 2% |
| Retirement age | 65 | 65 |

(1) During the first 30 years. 2.42% from then onwards.

The fair value of the plan assets was calculated at year-end using the projected unit credit method.

The expected return on the plan assets was calculated in accordance with the valuation of the assigned investment portfolio performed by the insurance company Mapfre Vida and in 2011 amounted to 5.06% (2010: 4.58%).

## 16. BANK BORROWINGS

The detail of the related headings in the accompanying consolidated balance sheets is as follows:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | 31/12/11 | | 31/12/10 | |
| | Non-Current | Current | Non-Current | Current |
| Bank loans and credit accounts | 242,171 | 2,912 | 181,342 | 17,007 |
| Unmatured accrued interest | - | 1,946 | 59,223 | 3,337 |
| Discounted notes and bills | - | 1,020 | - | - |
| **Total (Note 15)** | **242,171** | **5,878** | **240,565** | **20,344** |

Pursuant to IAS 39, the bank borrowings are presented in the balance sheet adjusted by the costs incurred in the arrangement of the loans.

In relation to the CPTM concession transaction described in Note 9, on 10 May 2011, the subsidiary Ctrens-Companhia de Manutençao, S.A. arranged with Banco Nacional de Desenvolvimiento Econômico e Social (BNDES) financing for a maximum amount of BRL 946,890 thousand. The loan bears interest at TJLP (Taxa de Juros de Longo Prazo) plus a spread. The loan principal will be repaid in 160 successive monthly instalments, the first of which will be paid in January 2013. At 31 December 2011, BRL 577,707 thousand (EUR 239,113) had been drawn down.

The related agreement contains certain restrictive clauses limiting Ctrens-Companhia de Manutençao, S.A., inter alia, in respect of the obtainment of new bank loans, the provision of guarantees, the reimbursement of capital, the distribution of dividends and the obligation to achieve certain financial conditions from January 2013 onwards, including a debt service coverage ratio (which must be over 1.2) and minimum capital structure ratio (which must be over 0.24).

Also, on 15 June 2011, the subsidiary entered into a "fiduciary" transfer of title agreement with BNDES whereby it assigned as a guarantee such collection rights as CTRENS might have vis-à-vis CPTM, as well as the guarantees provided by CPTM for the subsidiary and any amount claimable by the subsidiary from CPTM, CAF S.A. and CAF Brasil.

The shares of the subsidiary Ctrens-Companhia de Manutençao, S.A. have been pledged to BNDES.

The envisaged repayment schedule of non-current bank borrowings is as follows (in thousands of euros):

| | 31/12/11 |
|---|---|
| 2013 | 15,956 |
| 2014 | 17,334 |
| 2015 | 18,816 |
| 2016 | 20,259 |
| 2017 and subsequent years | 169,806 |
| **Total** | **242,171** |

| | 31/12/10 |
|---|---|
| 2012 | 14,913 |
| 2013 | 15,016 |
| 2014 | 14,822 |
| 2015 | 14,823 |
| 2016 and subsequent years | 180,991 |
| **Total** | **240,565** |

In addition to this financing, at 31 December 2011, the consolidated companies had been granted various credit lines by banks, basically in euros and bearing interest at market rates, largely tied to EURIBOR plus a market spread, with a limit of EUR 248,028 thousand (31 December 2010: EUR 125,944 thousand). No significant amounts had been drawn down at that date.

## 17. DERIVATIVE FINANCIAL INSTRUMENTS

The CAF Group uses derivative financial instruments to hedge the risks to which its activities, transactions and future cash flows are exposed, mainly risks arising from changes in exchange rates (see Note 3-d). The CAF Group arranges foreign currency hedges in order to mitigate the potential adverse effect that changes in exchange rates might have on future cash flows relating to transactions and loans in currencies other than the functional currency of the company concerned.

Also, certain companies accounted for using the equity method have arranged interest rate hedges (see Note 3-d).

The breakdown of the net balances of derivatives, basically fair value hedges, recognised in the consolidated balance sheets at 31 December 2011 and 2010 is as follows:

## 2011

| Currency Put Options at 31/12/11 (Fair Value Hedges) | Maturity (in Currency) 2012 | 2013 | 2014 and Subsequent Years |
|---|---|---|---|
| **Hedges :** | | | |
| USD foreign currency hedges (*) | 357,980,882 | 123,371,268 | 225,258,778 |
| GBP foreign currency hedges | 51,436,091 | - | - |
| EUR foreign currency hedges | 8,096,693 | 15,544,452 | 1,648,654 |
| BRL foreign currency hedges (**) | 85,235,979 | 43,743,563 | - |
| CAD foreign currency hedges | 368,527 | - | - |
| SEK foreign currency hedges | - | 303,271,515 | 63,815,900 |

(*) Including the hedge of the net investment in CAF USA, Inc

(**) Including the partial hedge of the net investment in CAF Brasil Ind, C.S.A. amounting to BRL 43,774 thousand.

| Currency Call Options at 31/12/11 (Fair Value Hedges) | Maturity (in Currency) 2012 | 2013 | 2014 and Subsequent Years |
|---|---|---|---|
| **Hedges :** | | | |
| USD foreign currency hedges | 76,339,674 | 912,000 | - |
| GBP foreign currency hedges | 136,029 | - | - |
| EUR foreign currency hedges | 30,367,432 | 6,017,725 | - |
| CHF foreign currency hedges | 3,222,790 | - | - |
| BRL foreign currency hedges | 70,755,603 | - | - |

| Currency Call Options at 31/12/11 (Cash Flow Hedge) | Maturity (in Currency) 2012 | 2013 | 2014 and Subsequent Years |
|---|---|---|---|
| **Hedges :** | | | |
| USD foreign currency hedges | 11,672,635 | 6,721,261 | 41,466,147 |

## 2010

| Currency Put Options at 31/12/10 (Fair Value Hedges) | Maturity (in Currency) 2011 | 2012 | 2013 and Subsequent Years |
|---|---|---|---|
| **Hedges :** | | | |
| USD foreign currency hedges | 24,729,331 | - | 26,000,000 |
| GBP foreign currency hedges | 66,966,521 | 15,040,694 | - |
| EUR foreign currency hedges | 2,300,040 | - | - |
| MXP foreign currency hedges | 60,348,484 | - | - |
| BRL foreign currency hedges | 323,134,665 | - | - |
| CAD foreign currency hedges | 385,286 | - | - |
| SEK foreign currency hedges | 122,362,472 | - | 367,087,415 |

| Currency Call Options at 31/12/10 (Fair Value Hedges) | Maturity (in Currency) 2011 | 2012 | 2013 and Subsequent Years |
|---|---|---|---|
| **Hedges :** | | | |
| USD foreign currency hedges | 83,136,882 | 44,493,619 | - |
| GBP foreign currency hedges | 1,264,957 | - | - |
| EUR foreign currency hedges | 4,698,682 | - | - |
| CHF foreign currency hedges | 805,698 | 3,222,790 | - |

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | Fair Value | | Cash Flow | |
| | 31/12/11 | 31/12/10 | 31/12/11 | 31/12/10 |
| **Hedges :** | | | | |
| USD foreign currency hedges | 4,550 | 458 | 2,625 | - |
| GBP foreign currency hedges | (404) | (11) | - | - |
| YEN foreign currency hedges | - | - | - | - |
| MXP foreign currency hedges | - | (300) | - | - |
| BRL foreign currency hedges | 2,786 | 10,735 | - | - |
| CHF foreign currency hedges | (131) | (131) | - | - |
| **Measurement at year-end (*)** | **6,801** | **10,751** | **2,625** | **-** |

(*) Before considering the related tax effect

At 2011 year-end the associate S.E.M. Los Tranvías de Zaragoza, S.A. (see Note 9-a) has arranged various financial swaps relating to the nominal value of its financial debt. These swaps were designated as cash flow interest rate hedges, and the value thereof attributable to the Group amounted to EUR 3,710 thousand, net of the related tax effect, at 2011 year-end.

The fair value of the derivative financial instruments was calculated using variables based on observable market data (closing exchange rates and interest rate curves).

The hedging instruments mature in the same year in which the cash flows are expected to occur.

In 2011 the ineffective portion of the hedging transactions recognised in the consolidated income statement gave rise to an expense of EUR 245 thousand (2010: income of EUR 1,281 thousand).

Also, the settlement and the change in the value of fair value derivatives amounted to an expense of EUR 25,984 thousand in 2011 (2010: expense of EUR 45,560 thousand), which is similar to the changes in value of the hedged items.

The items hedged by the Group, as indicated in Note 5-a on market risks, are currency transactions included in each of the commercial agreements. When the hedges are initially arranged these transactions comprise either firm commitments (in which case they are recognised as fair value hedges) or highly probable transactions (in which case they are recognised as cash flow hedges).

## 18. DEFERRED TAXES

At 31 December 2011, the companies composing the CAF Group basically had the last four years open for review by the tax authorities for the main taxes applicable to their business activities.

Since 2007 the Parent has filed consolidated income tax returns in the province of Guipúzcoa with certain subsidiaries.

The reconciliation of the Group's accounting profit for the year to the income tax expense is as follows:

| | Thousands of Euros | |
|---|---|---|
| | **2011** | **2010** |
| **Accounting profit before tax** | **143,867** | **158,592** |
| Tax rate of the Parent | 28% | 28% |
| **Income tax calculated at the tax rate of the Parent** | **40,283** | **44,406** |
| Effect of the different tax rate of subsidiaries | 1,875 | (342) |
| Effect of exempt income and non-deductible expenses for tax purposes | 2,891 | (55) |
| Effect of tax credits and other tax relief recognised in the year | (29,596) | (27,658) |
| Tax effect of tax assets and deferred taxes not recognised in previous years and recognised or taken in the year | - | (319) |
| Tax effect of tax assets and deferred taxes not recognised | (10) | (1,359) |
| Tax effect of the impairment of tax assets and deferred taxes | 220 | - |
| Adjustments recognised in the year relating to prior years' income tax | (1,441) | 159 |
| Change in tax rate | 38 | 48 |
| **Total income tax expense (benefit) recognised in the consolidated income statement** | **14,260** | **14,880** |
| **Current income tax expense (benefit) (*)** | **28,156** | **9,765** |
| **Deferred tax expense (benefit)** | **(13,896)** | **5,115** |

(*) Including prior years' adjustments and income tax.

The difference between the tax charge allocated and the tax payable for that year is presented under "Deferred Tax Assets" and "Deferred Tax Liabilities" on the asset and liability sides, respectively, of the accompanying consolidated balance sheet.

The detail of the breakdown and changes in these balances is as follows:

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | **31/12/10** | **Additions** | **Disposals** | **Translation Differences** | **Changes in the Scope of Consolidation (Note 2-g)** | **31/12/11** |
| **Deferred tax assets:** | | | | | | |
| Tax credit and tax loss carryforwards (Notes 3-m and 9) | 32,630 | 45,294 | (15,707) | (1,586) | (21,304) | 39,327 |
| Provisions temporarily not deductible | 45,588 | 38,907 | (12,680) | (1,239) | (4,317) | 66,259 |
| Share ownership scheme (Note 9) | 8,169 | - | (3,584) | - | - | 4,585 |
| Elimination of profits on consolidation | 26,618 | 86 | (1,130) | - | (25,392) | 182 |
| | **113,005** | **84,287** | **(33,101)** | **(2,825)** | **(51,013)** | **110,353** |
| **Deferred tax liabilities:** | | | | | | |
| Unrestricted and accelerated depreciation (Note 7) | 24,840 | 21,941 | (3,432) | 16 | | 43,365 |
| Investment valuation provisions | 16,179 | 9,461 | - | 5 | - | 25,645 |
| Cash flow hedges (Note 17) | - | 735 | - | - | - | 735 |
| Revaluation of land (Note 14) | 11,829 | - | - | - | - | 11,829 |
| Tax credit for the establishment of companies abroad | - | - | - | - | - | - |
| Goodwill | 210 | 74 | - | - | - | 284 |
| Elimination of profits on consolidation and other | 2,876 | 4,010 | (2,797) | 9 | - | 4,098 |
| | **55,934** | **36,221** | **(6,229)** | **30** | **-** | **85,956** |

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | **31/12/09** | **Additions** | **Disposals** | **31/12/10** |
| **Deferred tax assets:** | | | | |
| Tax credit and tax loss carryforwards (Notes 3-m and 9) | 14,348 | 23,660 | (5,378) | 32,630 |
| Provisions temporarily not deductible | 41,353 | 21,821 | (17,586) | 45,588 |
| Share ownership scheme (Note 9) | 9,184 | - | (1,015) | 8,169 |
| Elimination of profits on consolidation | 23,962 | 3,695 | (1,039) | 26,618 |
| | **88,847** | **49,176** | **(25,018)** | **113,005** |
| **Deferred tax liabilities:** | | | | |
| Unrestricted and accelerated depreciation (Note 7) | 13,600 | 14,553 | (3,313) | 24,840 |
| Investment valuation provisions | 681 | 15,498 | - | 16,179 |
| Cash flow hedges (Note 17) | 27 | - | (27) | - |
| Revaluation of land (Note 14) | 11,829 | - | - | 11,829 |
| Tax credit for the establishment of companies abroad | 1,843 | - | (1,843) | - |
| Goodwill | 733 | 70 | (593) | 210 |
| Elimination of profits on consolidation and other | 8,281 | 612 | (6,017) | 2,876 |
| | **36,994** | **30,733** | **(11,793)** | **55,934** |

In 2011 the Group expects to take tax credits amounting to EUR 22,542 thousand (2010: EUR 24,889 thousand) mainly in relation to tax credits for R&D expenditure and double taxation tax credits. Unused tax credits after projected income tax for 2011 amounted to EUR 29,805 thousand (2010: EUR 37,025 thousand), of which EUR 22,260 thousand are recognised under "Deferred Tax Assets- Tax Credit and Tax Loss Carryforwards" (2010: EUR 17,579 thousand). At 31 December 2011, the recognised tax loss carryforwards amounted to EUR 17,067 thousand (2010: EUR 15,051 thousand).

In general terms, the assets or equity items subject to the aforementioned tax credits must remain in operation in the Group, and be assigned, where applicable, to their intended purpose, for a minimum period of five years, or of three years in the case of movable property, unless the useful life is less, without being transferred, leased or assigned to third parties for their use, with the exception of justified losses.

In view of the uncertainty inherent to the recoverability of deferred tax assets, the Group's recognition policy is based on an assessment of its backlog. As required by this policy, the Group did not recognise tax credits and tax loss carryforwards amounting to EUR 19,579 thousand (2010: EUR 24,646 thousand), which will be recognised to the extent that they can be used in the coming years based on the limits and deadlines provided for in current legislation. Also, the Group has unrecognised deferred tax assets amounting to EUR 11,536 thousand (2010: EUR 9,143 thousand).

The amount of the tax credits (unrecognised) and the tax loss carryforwards and their schedule for use by the Group is as follows:

| | **Thousands of Euros** | |
|---|---|---|
| | **31/12/11** | **31/12/10** |
| Expiring in 2016 | 1,160 | - |
| Expiring in 2017 | 366 | 366 |
| Expiring in 2018 | 796 | 635 |
| Expiring in 2019 | 547 | 594 |
| Expiring in 2020 | 644 | 644 |
| Expiring in 2021 | 303 | 136 |
| Expiring in 2022 | 1 | 1 |
| Expiring in 2023 | 19 | 19 |
| Expiring in 2024 | 160 | 165 |
| Expiring in 2025 | 23 | 16,481 |
| Expiring in 2026 | 5,926 | - |
| Expiring in 2027 and subsequent years | 5,890 | 3,742 |
| Unlimited | 3,744 | 1,863 |
| | **19,579** | **24,646** |

In calculating the income tax payable for 2011, the Group deducted tax credits amounting to EUR 28,964 thousand (2010: EUR 18,582 thousand), of which EUR 13,477 thousand had been recognised under "Deferred Tax Assets" in the accompanying consolidated balance sheet at 31 December 2010. An expense for taxes abroad amounting to EUR 3,105 thousand was considered in connection with these tax credits. Also, the differences between the estimated income tax for 2010 and the tax return ultimately filed gave rise to income of EUR 1,441 thousand, basically due to the higher-than-expected tax credits (2010: an expense of EUR 159 thousand).

The Parent files income tax returns in accordance with the provisions of Guipúzcoa Corporation Tax Regulation 7/1996, of 4 July. On 30 December 2008, Guipúzcoa Regulation 8/2008, of 23 December, amending Guipúzcoa Regulation 7/1996, was published and came into force with effect for tax periods commencing on or after 1 January 2008, and sets, among other measures, a standard tax rate of 28%. Guipúzcoa Regulation 8/2008 has been appealed against at the Supreme Court, although the directors consider that this circumstance will not give rise to material liabilities.

Under current legislation taxes cannot be deemed to be finally settled until the tax returns filed have been reviewed by the tax authorities or until the four-year limitation period has expired. At 2011 year-end the Group had 2007 and subsequent years open for review by the tax authorities for income tax and 2008 and subsequent years for the other taxes to which it is subject at the companies which file tax returns in Spain and, at the foreign companies, in accordance with local legislation. The Parent's directors consider that they have settled the aforementioned taxes adequately and, therefore, although discrepancies might arise in the interpretation of the tax legislation in force in terms of the tax treatment of transactions, the resulting liabilities, if any, would not have a material effect on the accompanying consolidated financial statements.

In 2010 the Group was subject to an inspection by the tax authorities that did not give rise to material liabilities.

On 14 February 2012, the Company was notified of the commencement of a tax audit of the R&D tax credits reported in 2009 by the Parent and the subsidiary Trainelec, S.L.

## 19. TAX RECEIVABLES AND PAYABLES

The detail of the tax receivables and tax payables at 31 December 2011 and 2010 is as follows:

| | Thousands of Euros | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31/12/11 | | | | 31/12/10 | | | |
| | Assets | | Liabilities | | Assets | | Liabilities | |
| | Non-Current | Current | Non-Current | Current | Non-Current | Current | Non-Current | Current |
| Accrued social security taxes | - | - | - | 7,180 | - | 60 | - | 7,428 |
| Regular taxes | | | | | | | | |
| VAT (Note 9) | 38,114 | 22,119 | - | 20,142 | 11,503 | 42,642 | - | 12,923 |
| Other | - | 1,493 | - | 155 | - | 1,097 | - | 85 |
| Personal income tax withholdings | - | | - | 7,430 | - | - | - | 6,703 |
| Income tax (Note 3-m) | - | 3,684 | - | 5,322 | - | 4,324 | - | 4,013 |
| Grants receivable (*) | - | 7,199 | - | - | - | 1,636 | - | - |
| | **38,114** | **34,495** | **-** | **40,229** | **11,503** | **49,759** | **-** | **31,152** |

(*) Including refundable advances receivable.

In 2011 the Parent and certain subsidiaries were authorised to file consolidated VAT returns.

## 20. SHORT- AND LONG-TERM PROVISIONS

### Long-term provisions

The Group records provisions under "Long-Term Provisions" for present obligations arising from past events that it expects to settle when they fall due through an outflow of resources. The amount is based on the best estimate made by the Parent's directors at the reporting date and the obligations are recognised at the present value whenever the financial effect is material. In 2011 and 2010 the Group made payments of EUR 1,523 thousand and EUR 1,419 thousand, respectively, and recognised provisions amounting to EUR 3,039 thousand and EUR 904 thousand, respectively, mainly with a charge to "Staff Costs - Wages and Salaries" (see Note 22) in the consolidated income statement.

Short-term provisions

The changes in "Short-Term Provisions" (see Note 3-ñ) in 2011 and 2010 were as follows (in thousands of euros):

| | Warranty and Support Services, Contractual Liability, etc. (Notes 3-f and 3-ñ) | Other Provisions (Notes 3-m, 3-ñ and 8) | Total |
|---|---|---|---|
| **Balance at 31/12/09** | **214,791** | **3,076** | **217,867** |
| Net charge for the year (Notes 3-k, 3-ñ and 18) | (12,277) | (50) | (12,327) |
| Transfers | 5,564 | - | 5,564 |
| **Balance at 31/12/10** | **208,078** | **3,026** | **211,104** |
| Net charge for the year (Notes 3-k, 3-ñ and 18) | 39,533 | (236) | 39,297 |
| Amounts used | (2,047) | - | (2,047) |
| Translation differences | (556) | - | (556) |
| **Balance at 31/12/11** | **245,008** | **2,790** | **247,798** |

In 2011 the Group recognised a provision of EUR 19,195 thousand in relation to arbitration in progress with a customer with a charge to "Other Operating Expenses" in the accompanying consolidated income statement.

The additional short-term provisions at 31 December 2011 and 2010 relate basically to provisions for contractual liability (EUR 120 million at 31 December 2011 and EUR 112 million at 31 December 2010) and for warranties and after-sales services (EUR 109 million at 31 December 2011 and EUR 99 million 31 December 2010).

The consolidated companies recognised under "Other Operating Expenses" in the accompanying consolidated income statement for 2011 EUR 38,433 thousand (2010: income of EUR 12,277 thousand) relating to the difference between the provisions required in this connection at 2011 year-end and the provisions recognised at 2010 year-end. The expenses incurred in 2011 and 2010 in connection with the provision of contractual warranty services (approximately EUR 41,293 thousand and EUR 36,538 thousand, respectively) were recognised under "Procurements" and "Staff Costs" in the accompanying consolidated income statements for 2011 and 2010.

## 21. INCOME AND EXPENSES

### a) Procurements

| | Thousands of Euros | |
|---|---|---|
| | **2011** | **2010** |
| Materials used (*) | 917,735 | 767,888 |
| Work performed by other companies | 47,293 | 46,792 |
| | **965,028** | **814,680** |

(*) 76% in euros, and the remainder mainly in US dollars and Brazilian reais (2010: 83% in euros).

### b) Other operating expenses

| | Thousands of Euros | |
|---|---|---|
| | 2011 | 2010 |
| Outside services | 220,624 | 227,607 |
| Taxes other than income tax | 2,452 | 2,544 |
| Change in operating provisions and allowances and other | 38,885 | (11,621) |
| Other current operating expenses | 1,340 | 325 |
| | **263,301** | **218,855** |

The fees audit services (including six-monthly reviews) relating to Construcciones y Auxiliar de Ferrocarriles, S.A. and subsidiaries amounted to EUR 686 thousand in 2011 (2010: EUR 808 thousand). Of this amount, EUR 527 thousand related to the annual audit of companies audited by member firms of the Deloitte worldwide organisation (2010: EUR 646 thousand). In addition, fees were billed for other professional services amounting to EUR 552 thousand (2010: 707 thousand), of which EUR 518 thousand (2010: EUR 645 thousand) relate to the principal auditor, EUR 352 thousand relate to services relating to the audit, EUR 93 thousand relate to tax services and the remainder relates to other services (2010: EUR 427 thousand, EUR 64 thousand and EUR 154 thousand, respectively).

### c) Information on the environment

In 2011 investments amounting to EUR 1,216 thousand (2010: EUR 65 thousand) were made in systems, equipment and facilities designed for environmental protection and improvement.

In 2011 and 2010 the Group did not obtain any environmental grants.

At 31 December 2011, the Group did not have any litigation in progress or contingencies relating to environmental protection and improvement. The Group companies' directors do not expect any material liabilities to arise as a result of the Group's environmental activities and, accordingly, the accompanying consolidated balance sheet does not include any provisions in this connection.

In 2011 the Group incurred environmental expenses amounting to EUR 42 thousand.

### d) Grants related to income

Most of the grants transferred to profit or loss in 2011 and 2010 related to grants from various Spanish ministerial programmes from various calls for tender, justifying the costs incurred.

Grants must be refunded together with the related market interest if the R&D investments envisaged under these projects are not made.

The grants related to income recognised in 2011 under "Other Operating Income" in the accompanying consolidated income statement amounted to EUR 5,231 thousand (2010: EUR 5,953 thousand).

## 22. AVERAGE HEADCOUNT AND STAFF COSTS

The average headcount in 2011 and 2010 was as follows:

| | Average Number of Employees | |
|---|---|---|
| **Professional Category** | **2011** | **2010** |
| Employees | 2,613 | 2,432 |
| Manual workers | 4,313 | 4,506 |
| **Total (*)** | **6,926** | **6,938** |

(*) At 31 December 2011, there were 6,952 employees (31 December 2010: 7,094 employees).

The breakdown, by gender, of the average headcount in 2011 and 2010 is as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| **Professional Category** | **Men** | **Women** | **Men** | **Women** |
| Employees | 1,990 | 623 | 1,867 | 565 |
| Manual workers | 4,168 | 145 | 4,361 | 145 |
| **Total** | **6,158** | **768** | **6,228** | **710** |

All of CAF's directors are men.

The detail of staff costs is as follows (in thousands of euros):

| | 2011 | 2010 |
|---|---|---|
| Wages and salaries (Notes 3-k, 3-l and 3-ñ) | 255,442 | 234,797 |
| Social security costs | 70,320 | 66,790 |
| Other costs (Note 3-k) | 16,983 | 16,573 |
| | **342,745** | **318,160** |

## 23. INFORMATION ON THE BOARD OF DIRECTORS

### a) Remuneration and other benefits of directors

In 2011 and 2010 the Parent recognised approximately EUR 1,293 thousand and EUR 1,178 thousand of remuneration and attendance fees earned by its directors, whereas the directors of the subsidiaries did not earn any remuneration in this connection. At 31 December 2011 and 2010, neither the Parent nor the subsidiaries had granted any advances, guarantees or loans to their current or former directors and, except as indicated in Note 3-k, the Group did not have any pension or life insurance obligations to them.

### b) Conflicts of interest and investments in companies engaging in identical, similar or complementary activities

#### Conflicts of interest

In 2011 the members of the Board of Directors and the persons related to them as defined in Article 231 of the Spanish Limited Liability Companies Law did not create directly or indirectly any situations of conflict of interest with the Company.

#### Investments in companies engaging in identical, similar or complementary activities

The ownership interests of members of the Board of Directors in companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the company object of CAF are as follows:

– Caja de Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián (Gipuzkoa Donostia Kutxa) has a 95% ownership interest in the capital of Alquiler de Trenes, AIE and a 75% ownership in the capital of Alquiler de Metros, AIE, companies incorporated together with CAF (see Note 9).

## 24. REMUNERATION OF SENIOR EXECUTIVES

Since the senior executives of the Parent are also members of its Board of Directors, their staff costs (remuneration in cash or in kind, social security costs, etc.) were disclosed in Note 23-a above, in accordance with the mandatory obligation defined in the corporate governance report.

In 2011 and 2010 there were no other transactions with senior executives outside the ordinary course of business.

## 25. OTHER DISCLOSURES

### a) Guarantees and other contingent assets and liabilities

At 31 December 2011, the guarantees provided to the Group by banks and insurance companies for third parties amounted to EUR 1,715,798 thousand (31 December 2010: EUR 2,096,850 thousand) relating basically to technical guarantees in compliance with the orders received. Of this amount, EUR 73,765 thousand related to guarantees for the refundable grants and advances granted by the Ministry of Science and Technology (see Note 15) and other government agencies (31 December 2010: EUR 81,965 thousand).

In 2010 and 2011 arbitration proceedings commenced with two suppliers in relation to the suburban railway works in Mexico City and had not come to an end at the date of preparation of these consolidated financial statements.

The Parent's directors do not expect these proceedings to give rise to any material losses for the Group, except for those taken into account in the financial statements following the analysis performed of the amounts claimed and of the costs already recognised.

In 2011 and 2010 the CAF Group did not identify any significant contingent asset or liability other than that indicated above.

### b) Disclosures on the payment periods to suppliers. Additional Provision Three. “Disclosure obligation” provided for in Law 15/2010, of 5 July

Set forth below are the disclosures required by Additional Provision Three of Law 15/2010, of 5 July:

| | Amounts Paid and Payable at Year-End (In Thousands of Euros) | |
|---|---|---|
| | 2011 | |
| | Amount | % |
| Paid in the maximum payment period | 213,741 | 48.72 |
| Remainder | 224,979 | 51.28 |
| **Total payments made in the year** | **438,720** | **100** |
| Weighted average period of early payment (in days) | 23.61 | |
| Weighted average period of late payment (in days) | 25.97 | |
| Weighted average payment period | 86.82 | |
| Payments at year-end not made in the maximum payment period | 13,096 | |

The figures shown in the foregoing table in relation to payments to suppliers relate to suppliers that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to “Payable to Suppliers” and “Other Accounts Payable - Sundry Accounts Payable” under “Current Liabilities” in the consolidated balance sheet.

The weighted average period of early payment and the weighted average period of late payment were calculated as the quotient whose numerator is the result of multiplying the payments made to suppliers inside/outside the maximum payment period by the number of days of early/late payment and whose denominator is the total amount of the payments made in the year inside/outside the maximum payment period. The weighted average payment period was calculated taking into account all payments, regardless of whether they were made inside or outside the maximum payment period.

The maximum payment period applicable to the Company under Law 3/2004, of 29 December, on combating late payment in commercial transactions and pursuant to the transitional provisions contained in Law 15/2010, of 5 July, is 85 days in the period between the entry into force of the Law and 31 December 2011.

## 26. EVENTS AFTER THE BALANCE SHEET DATE

At 31 December 2011, the firm backlog, net of progress billings, amounted to approximately EUR 5,035,940 thousand (31 December 2010: EUR 4,518,903 thousand) (see Note 11). At 31 January 2012, the total was EUR 4,988,950 thousand (31 January 2011: EUR 4,398,843 thousand).

## 27. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

# Approval by the Board of Directors

| | |
|---|---|
| JOSÉ Mª BAZTARRICA GARIJO | Chairman and CEO |
| ANDRÉS ARIZCORRETA GARCÍA | Chief Executive Officer |
| ALEJANDRO LEGARDA ZARAGÜETA | Managing Director |
| JOSÉ ANTONIO MUTILOA IZAGIRRE | Director for Gipuzkoa Donostia Kutxa |
| LUIS MIGUEL ARCONADA ECHARRI | Director |
| JOSÉ MIGUEL DE LA RICA BASAGOITI | Director |
| FERMÍN ARRESE ARRATIBEL | Director |
| XABIER GARAIALDE MAIZTEGUI | Director |
| JOSÉ IGNACIO BERROETA ECHEVARRIA | Director |
| JUAN JOSÉ ARRIETA SUDUPE | Director |
| ALFREDO BAYANO SARRATE | Secretary |

Certificate issued by the Secretary attesting that, following the authorisation for issue of the consolidated financial statements and consolidated directors' report of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. and Subsidiaries composing the CAF Group (consolidated) for the year ended 31 December 2011 by the Board of Directors at its meeting on 28 February 2012, the directors have signed this document, consisting of 82 sheets numbered sequentially from 3078 to 3159, inclusive, all approved by the Secretary, who also signs them, countersigned by the Chairman and signed by each of the directors at the end of the document.

San Sebastián, 28 February 2012.

| | |
|---|---|
| Approved by | Approved by |
| THE CHAIRMAN | THE SECRETARY OF THE BOARD |
| JOSÉ Mª BAZTARRICA GARIJO | ALFREDO BAYANO SARRATE |

# Resolutions submitted by the Board of Directors for approval by the Shareholders' meeting

**General Meeting, which will be held at the registered office in Beasain, Gipuzkoa, on 2 June 2012, at 12.30 p.m., at first call and, where appropriate, on the following day, at the same place and time, at second call:**

**One.** Examination and approval, as appropriate, of the financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A., and of the consolidated financial statements of its group companies for 2011, and of the management of the Board of Directors.

**Two.** Approval of the proposed distribution of profit for 2011, with a gross dividend payment amounting to EUR 10.5 per share.

**Three.** Appointment of Kutxabank, S.A. as director, in replacement of Caja de Ahorros de Gipuzkoa y San Sebastián, "Kutxa".

**Four**. Re-appointment of financial auditors.

**Five.** Consultative vote on the remuneration report approved by the Board.

**Six.** Ratification of the corporate website.

**Seven.** Empower the Board of Directors to the extent necessary, for the purpose of executing in a public deed the aforementioned resolutions, as required, with express powers to clarify, correct or supplement the aforementioned resolutions in accordance with the oral or written assessment of the Mercantile Registrar, performing such acts as that might be required to ensure the registration thereof in the Mercantile Registry.

**Eight.** Approval of the minutes of the General Meeting.

# Proposed distribution of income

To appropriate EUR 91,663 thousand of the Parent's post-tax profit of EUR 35,995 thousand to dividends and EUR 55,668 thousand to voluntary reserves.

# Board of Directors

| | |
|---|---|
| JOSÉ Mª BAZTARRICA GARIJO | Chairman and CEO |
| ANDRÉS ARIZCORRETA GARCÍA | Chief Executive Officer |
| ALEJANDRO LEGARDA ZARAGÜETA | Managing Director |
| JOSÉ ANTONIO MUTILOA IZAGIRRE | Director for Gipuzkoa Donostia Kutxa |
| LUIS MIGUEL ARCONADA ECHARRI | Director |
| JOSÉ MIGUEL DE LA RICA BASAGOITI | Director |
| FERMÍN ARRESE ARRATIBEL | Director |
| XABIER GARAIALDE MAIZTEGUI | Director |
| JOSÉ IGNACIO BERROETA ECHEVARRIA | Director |
| JUAN JOSÉ ARRIETA SUDUPE | Director |
| ALFREDO BAYANO SARRATE | Secretary |

At 28 February 2012 the Directors owned 19.064% of the capital stock.

# SUPPLEMENTARY INFORMATION 2007-2011

## Consolidated Balance Sheets
## Consolidated Income Statements
## Stock market Information

# Consolidated Balance Sheets

## as of December 31st 2011, 2010, 2009, 2008, 2007 (Thousands of Euros)

| Assets | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Non-current assets:** | | | | | |
| **Intangible assets** | | | | | |
| Goodwill | 232 | 596 | 5,892 | 5,447 | 48 |
| Other intangible assets | 30,567 | 211,865 | 163,908 | 167,725 | 197,508 |
| | **30,799** | **212,461** | **169,800** | **173,172** | **197,556** |
| **Property, plant and equipment, net** | **288,539** | **300,967** | **274,633** | **204,630** | **171,923** |
| **Investments accounted for using the equity method** | **11,558** | **16,979** | **12,191** | **13,468** | **2,064** |
| **Non-current financial assets** | **420,422** | **56,718** | **51,987** | **60,781** | **25,871** |
| **Deferred tax assets** | **110,353** | **113,005** | **88,847** | **72,582** | **44,409** |
| **Total non-current assets** | **861,671** | **700,130** | **597,458** | **524,633** | **441,823** |
| **Current assets:** | | | | | |
| **Inventories** | **365,464** | **354,906** | **336,624** | **78,875** | **18,929** |
| **Trade and other receivables** | | | | | |
| Trade receivables for sales and services | 776,715 | 669,400 | 814,186 | 642,556 | 334,372 |
| Other accounts receivable | 48,841 | 77,328 | 42,768 | 39,072 | 21,144 |
| Current tax assets | 3,684 | 4,324 | 4,368 | 1,821 | 1,607 |
| | **829,240** | **751,052** | **861,322** | **683,449** | **357,123** |
| **Other current financial assets** | **235,519** | **358,467** | **468,818** | **509,539** | **454,835** |
| **Other current assets** | **2,691** | **3,433** | **3,172** | **396** | **324** |
| **Cash and cash equivalents** | **86,214** | **55,705** | **81,727** | **116,714** | **24,212** |
| **Total current assets** | **1,519,128** | **1,523,563** | **1,751,663** | **1,388,973** | **855,423** |
| **Total assets** | **2,380,799** | **2,223,693** | **2,349,121** | **1,913,606** | **1,297,246** |

| Equity and Liabilities | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Equity:** | | | | | |
| **Shareholders' equity** | | | | | |
| Registered share capital | 10,319 | 10,319 | 10,319 | 10,319 | 10,319 |
| Share premium | 11,863 | 11,863 | 11,863 | 11,863 | 11,863 |
| Revaluation reserve | 58,452 | 58,452 | 58,452 | 58,452 | 58,452 |
| Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method | 444,554 | 351,221 | 268,294 | 195,648 | 136,070 |
| Profit for the year attributable to the Parent | 146,182 | 129,624 | 124,343 | 105,741 | 87,626 |
| | **671,370** | **561,479** | **473,271** | **382,023** | **304,330** |
| **Valuation Adjustments** | | | | | |
| Translation differences | (5,106) | 2,145 | (13,702) | (19,697) | (3,914) |
| Hedges | (1,820) | - | (70) | (204) | 496 |
| | **(6,926)** | **2,145** | **(13,772)** | **(19,901)** | **(3,418)** |
| **Equity attributable to the Parent** | **664,444** | **563,624** | **459,499** | **362,122** | **300,912** |
| **Non-controlling interests** | **2,820** | **9,660** | **12,946** | **15,208** | **3,574** |
| **Total equity** | **667,264** | **573,284** | **472,445** | **377,330** | **304,486** |
| **Non-current liabilities:** | | | | | |
| **Long-term provisions** | **3,662** | **2,146** | **2,661** | **3,812** | **872** |
| **Non-current financial liabilities** | | | | | |
| Bank borrowings | 242,171 | 240,565 | 187,577 | 160,349 | 161,232 |
| Other financial liabilities | 84,159 | 66,624 | 62,763 | 65,937 | 92,411 |
| | **326,330** | **307,189** | **250,340** | **226,286** | **253,643** |
| **Deferred tax liabilities** | **85,956** | **55,934** | **36,994** | **21,356** | **20,593** |
| **Other non-current liabilities** | **8,727** | **5,546** | **4,008** | **-** | **-** |
| **Total non-current liabilities** | **424,675** | **370,815** | **294,003** | **251,454** | **275,108** |
| **Current liabilities:** | | | | | |
| **Short-term provisions** | **247,798** | **211,104** | **217,867** | **199,458** | **114,995** |
| **Current financial liabilities** | | | | | |
| Bank borrowings | 5,878 | 20,344 | 15,817 | 16,564 | 26,110 |
| Other financial liabilities | 28,096 | 21,946 | 21,137 | 29,173 | 20,586 |
| | **33,974** | **42,290** | **36,954** | **45,737** | **46,696** |
| **Trade and other payables** | | | | | |
| Payable to suppliers | 417,312 | 440,363 | 521,510 | 445,668 | 235,016 |
| Other accounts payable | 584,089 | 580,235 | 793,201 | 569,792 | 298,458 |
| Current tax liabilities | 5,322 | 4,013 | 12,823 | 23,722 | 21,852 |
| | **1,006,723** | **1,024,611** | **1,327,534** | **1,039,182** | **555,326** |
| **Other current liabilities** | **365** | **1,589** | **318** | **445** | **635** |
| **Total current liabilities** | **1,288,860** | **1,279,594** | **1,582,673** | **1,284,822** | **717,652** |
| **Total equity and liabilities** | **2,380,799** | **2,223,693** | **2,349,121** | **1,913,606** | **1,297,246** |

# Consolidated Incomes Statements

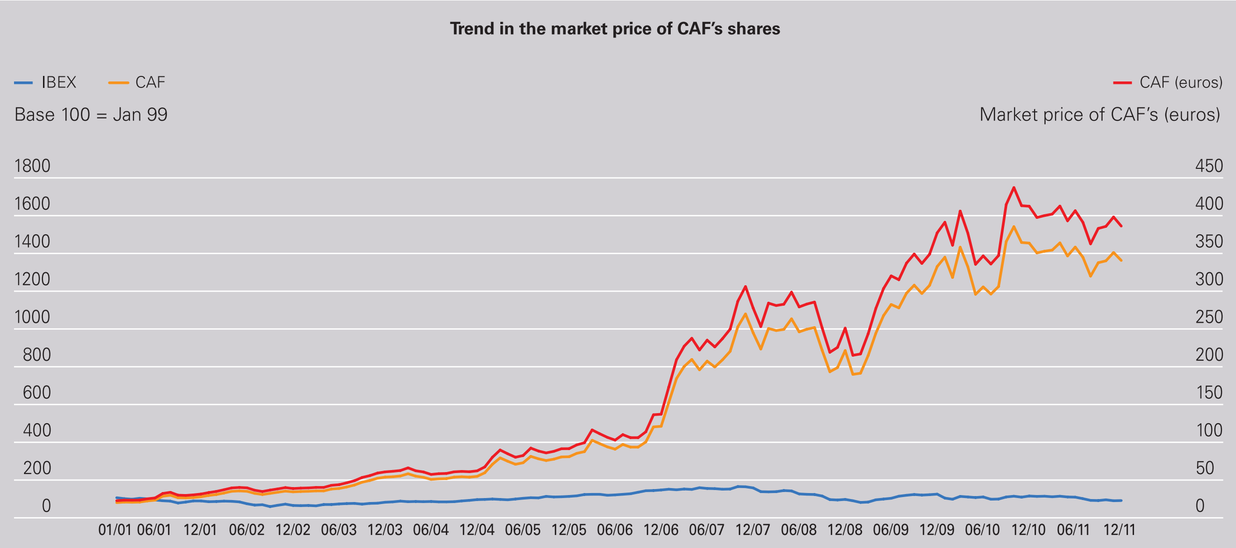
## as of December 31st 2009, 2008, 2007, 2006, 2005 (Thousands of Euros)

| (Debit) Credit | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Continuing operations:** | | | | | |
| Revenue | 1,725,099 | 1,563,206 | 1,261,734 | 1,108,794 | 1,186,375 |
| +/- Changes in inventories of finished goods and work in progress | 66,356 | (20,207) | 186,063 | 10,177 | (111,892) |
| In-house work on non-current assets | 2,054 | 1,783 | 827 | 119 | 22 |
| Procurements | (965,028) | (829,824) | (778,584) | (584,427) | (626,083) |
| Other operating income | 6,402 | 9,172 | 11,698 | 14,280 | 1,990 |
| Staff costs | (342,745) | (318,160) | (280,119) | (229,466) | (200,130) |
| Other operating expenses | (263,301) | (203,711) | (236,253) | (210,954) | (122,144) |
| Other gains or losses | - | - | (1,051) | 373 | (26,849) |
| **Ebitda** | **228,837** | **202,259** | **164,315** | **108,896** | **101,289** |
| Depreciation and amortisation charge | (36,788) | (31,278) | (21,450) | (17,211) | (15,120) |
| Impairment and gains or losses on disposals of non-current assets | (27,266) | (14,337) | 2,407 | 184 | 22 |
| **Profit from operations** | **164,783** | **156,644** | **145,272** | **91,869** | **86,191** |
| Finance income | 9,620 | 11,473 | 6,287 | 17,135 | 8,527 |
| Finance costs | (26,627) | (2,102) | (1,110) | (1,272) | (609) |
| Exchange differences | 39 | (9,217) | 2,416 | 2,781 | 3,709 |
| Impairment and gains or losses on disposals of financial instruments | (639) | 2,685 | 845 | (2,642) | (107) |
| Change in fair value of financial instruments | (8) | (45) | - | - | - |
| **Financial profit (loss)** | **(17,615)** | **2,794** | **8,438** | **16,002** | **11,520** |
| Result of companies accounted for using the equity method | (3,301) | (846) | (524) | (294) | 387 |
| **Profit before tax** | **143,867** | **158,592** | **153,186** | **107,577** | **98,098** |
| Income tax | (14,260) | (14,880) | (7,213) | (3,135) | (8,419) |
| **Profit for the year from continuing operations** | **129,607** | **143,712** | **145,973** | **104,442** | **89,679** |
| Profit (Loss) for the year from discontinued operations | 11,842 | (18,272) | (26,267) | 2,266 | (1,378) |
| **Consolidated profit (loss) for the year** | **141,449** | **125,440** | **119,706** | **106,708** | **88,301** |
| **Attributable to:** | | | | | |
| The Parent | 146,182 | 129,624 | 124,343 | 105,741 | 87,626 |
| Non-controlling interests | (4,733) | (4,184) | (4,637) | 967 | 675 |
| **Earnings per share (in euros)** | | | | | |
| Basic | 42.64 | 37.81 | 36.27 | 30.85 | 25.56 |
| Diluted | 42.64 | 37.81 | 36.27 | 30.85 | 25.56 |

The data relating to prior years were adapted to adequately reflect the operations classified as discontinued operations, as indicated in Note 2-g to the financial statements.

# Stock market information

As of December 31, 2011, the Parent Company's capital stock amounted to €10,318,506 and consisted of 3,428,075 fully subscribed and paid listed shares of €3.01 par value each, traded by the book-entry system.




| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Stock market capitalization** | | | | | |
| Figures as of December 31 | 1,319,808,875 | 1,336,949,250 | 1,289,299,008 | 856,675,943 | 947,862,738 |
| **Per-share data** | | | | | |
| Net earnings per share | 42.64 | 37.81 | 36.27 | 30.85 | 25.56 |
| Dividend per share | 10.50 | 10.50 | 10.50 | 9.50 | 8.50 |
| Per-share net book value | 193.82 | 164.41 | 134.04 | 105.63 | 87.78 |
| **Stock market ratios** | | | | | |
| PER | 9.02 | 10.07 | 8.27 | 8.39 | 9.56 |
| Average price/EBITDA (*) | 5.76 | 6.46 | 6.26 | 8.14 | 8.27 |
| MV/BV (average price/book value) | 1.98 | 2.32 | 2.24 | 2.45 | 2.78 |
| Dividend yield | 2.73% | 2.76% | 3.50% | 3.67% | 3.48% |
| Pay-out | 24.62% | 27.77% | 28.95% | 30.80% | 33.25% |

(*) The data relating to prior years were adapted to adequately reflect the operations classified as discontinued operations, as indicated in Note 2-g to the financial statements.

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

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## SHAREHOLDERS' DEPARTMENT


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Email: accionistas@caf.net

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.
AND DEPENDENT COMPANIES THAT MAKE UP THE CAF GROUP