Annual Report 2003

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

Contents

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Annual Report ***2003***

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

This document, which is also published in English an on CD-ROM, contains the statutory documentation of 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 chairman

Dear Shareholder:

On the occasion of the Shareholders' Meeting to which the management report and financial statements for 2003 are submitted for approval, I would like to inform you about the highlights of 2003 and offer you some important data about the future of our Company.

Consolidated Group income for 2003 was €11.6 million, up 18% on 2002. Earnings before interest, taxes, depreciation and amortization (EBITDA) were €29.03 million and cash flow stood at €27.86 million, exceeding the figures obtained in 2002 by 10.02% and 11.90%, respectively.

The CAF consolidated Group's sales amounted to €495 million in 2003, up 26.27% on the previous year.

In 2003 the total volume of contracts awarded to CAF in the domestic market amounted to €486 million. The most significant of these contracts were the orders for: 40 suburban units (Civia trains) for Renfe, 39 five-car trains for the Barcelona metro, 17 light rail metro units for Guadalmetro, the concession-holder of the Seville light rail system, 10 diesel units for Serveis Ferroviaris de Mallorca and 13 units for Ferrocarrils de la Generalitat de Catalunya.

Contracts worth €208 million were obtained in foreign markets and included most notably 9 diesel units for Irish Rail and 15 six-car units for the Brussels metro.

In total orders worth €694 million were obtained, the highest-ever figure in the Company's history.

As a result of the commercial activity described above, the backlog at 2003 year-end reached an all time high of €1,590 million, 50% of which relates to the domestic market and 50% to foreign markets.

As the most important milestones in terms of deliveries, we can point out the completion of the Washington, Sacramento and Ireland projects, the first shipments to Northern Ireland and Pittsburgh, and the forthcoming roll-out of CAF's first high-speed, variable-gauge train.

The expectations of obtaining new contracts from Renfe in connection with the Railways Infrastructure Plan and, in particular, the new high-speed lines, which were discussed in previous years, were borne out in the first months of 2004.

Renfe awarded CAF the supply of 45 variable-gauge 250 km/h high-speed trains. This contract for trains capable of travelling on lines with different gauges assures CAF's presence in the high-speed sector. The innovative technology developed by CAF will enable Renfe operate versatile trains that run on the two existing gauges without the need to stop.

Also, RENFE awarded the consortium formed by CAF and another manufacturer the supply of 30 single gauge 250 km/h high-speed trains.

We will closely follow the projects to develop Spain's high-speed network and for this purpose will maintain our firm commitment to the development of our own technology and to further research for new solutions.

In the foreign markets, following the success obtained in Europe with contracts in the United Kingdom, Ireland and Italy, we have made further progress with the award of the contract for the Brussels metro, which has consolidated our position in the European market.

Also, the new member countries of the EU, which need to develop their railways and metro networks, represent medium-term target markets to which we will devote our attention and efforts.

As a result of the commercial activity subsequent to 2003 year-end, the volume of the backlog at the end of February reached a new record high of €2,406 million.

This significant figure will enable us to not only to carry on our normal industrial activities over the next few years, but also to engage in our commercial activity with a more long-term perspective.

I would like to end this letter by once again acknowledging and expressing my gratitude for the contribution of all CAF's employees without whose efforts and dedication it would not have been possible to achieve the results we have obtained. We can only rise to meet the considerable challenges awaiting us in the near future with the renewed efforts of all the individuals who are part of our Company and we have every confidence that we will achieve this.

I would like to thank you and the other shareholders for the trust you have placed in our Company and finally to confirm our commitment to continue to work with the same motivation and dedication to achieve the targets we have set ourselves.

Thank you very much.

José María Baztarrica Garijo
Chairman and CEO

CITY/SUBURBAN

Metros

- Bilbao
- Barcelona
- Brussels
- Madrid
- Hong Kong
- Washington
- Sao Paulo
- Mexico
- Rome
- Seville
- Valencia

Articulated light rail vehicles

- Pittsburgh (USA)
- Sacramento (USA)
- Amsterdam (Holland)
- Monterrey (Mexico)
- Coastal train (Argentina)

Regional Trains

- Red Nacional de Ferrocarriles Españoles (RENFE)
- Eusko Trenbideak-Ferrocarriles Vascos (ET/FV)
- Ferrocarrils de la Generalitat de Catalunya (FGC)
- Ferrocarriles Españoles de Vía Estrecha (FEVE)
- SFM de Mallorca
- Finnish Railways (VR Ltd)
- Caminhos de Ferro Portugueses
- Hong-Kong Lar Airport
- Heathrow Express
- Northern Spirit
- Irish Rail
- Northern Ireland Railways

Trams

- Valencia
- Lisbon
- Bilbao

CAF

With a track record of more than one hundred years, CAF is an international benchmark in the railroad industry due to its state-of-the-art technology, the quality of its products and its personalized customer service.

MAJOR LINES

Intercity trains

- Compartments and luxury lounge
- Sleeping cars and couchettes
- Restaurant and cafeteria cars
- High-speed electric trains

High-speed trains

- High-speed trains for the Madrid-Seville line
- High-speed trains for the future Madrid-French border line
- Shuttle trains (RENFE)
- Variable Gauge powered trains

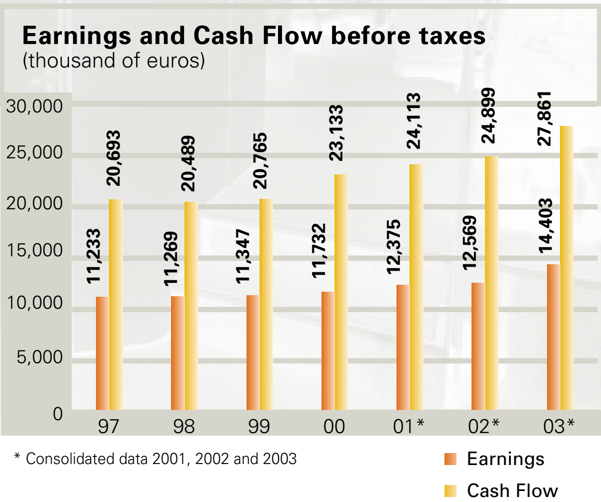
Management Report of the Consolidated Group

Earnings

The statement of income for 2003 shows after-tax income amounting to €11,605 thousand, approximately 18% higher than in 2002.

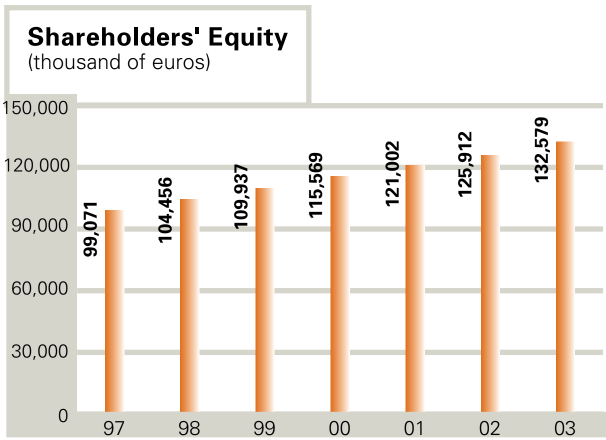
The CAF Group's 2003 financial results were as follows:

- Income after taxes amounted to €11,605 thousand, up approximately 18% on 2002.
- The depreciation and amortization charge of €13,458 thousand, plus the income for the year before taxes, generated a cash flow of €27,861 thousand.
- Net sales totaled €495,479 thousand.
- The backlog of €1,590,002 thousand as of December 31, 2003, which exceeded the 2002 year-end figure, will enable the Company to continue to pursue its normal business activities.
- The proposed distribution of €3,737 thousand of the Parent Company's income after taxes to pay dividends and €6,668 thousand to voluntary reserves supports the policy of prior years of strengthening the Parent Company's net worth.
- The proposed allocation of income to reserves, if approved, will increase the Parent Company's shareholders' equity to €132,579 thousand.
- Lastly, as required by law, CAF declares that neither it nor its subsidiaries purchased or held any treasury stock in 2003.

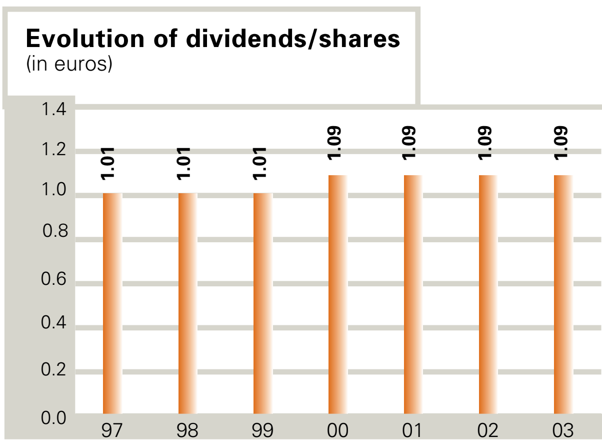


Earnings and Cash Flow before taxes
(thousand of euros)

* Consolidated data 2001, 2002 and 2003



Shareholders' Equity
(thousand of euros)



Evolution of dividends/shares
(in euros)

Commercial activity

The backlog amounted to €1,590 million at year-end, up 14% on the previous year.

In 2003 the contracts obtained by CAF amounted to €694 million, of which 70% related to the domestic market. At 2003 year-end the Group's backlog stood at €1,590 million.

This backlog, which exceeded the 2002 figure by 14%, is the highest ever reached by CAF and evidences a substantial increase in its share of the domestic market which, at 50%, equals that of the export market.

Significant contracts were secured in the domestic market, including most notably RENFE's order for 40 suburban units (CIVIA trains). The Barcelona subway authority ordered 39 five-car units basically for Line 5 of the city's subway. As part of the concession granted to GUADALMETRO, a contract was obtained to supply 17 light rail units (all low-floor streetcars) for the Seville subway authority. Also, 10 diesel units were ordered by Serveis Ferroviaris de Mallorca, as an extension to earlier orders, and 13 units of the 213 series were ordered by Ferrocarrils de la Generalitat de Catalunya, also as an addition to previous units supplied.

As regards exports, the consolidation of CAF's position in the European market led to the obtainment of a contract for 9 diesel units for Ireland, extending the order for 20 units placed in 2000. More importantly, CAF submitted the successful bid, in an international tender, for the supply of 15 six-car units for the Brussels subway.

Maintenance work in 2003 focused on long-term contracts and the Group continued with its efforts to establish the specifications for future contract awards, in particular in the domestic market, to enable maintenance contracts to be arranged for terms of up to 14 years.

Sales of rolling stock remained at a very positive level, similar to that of prior years.

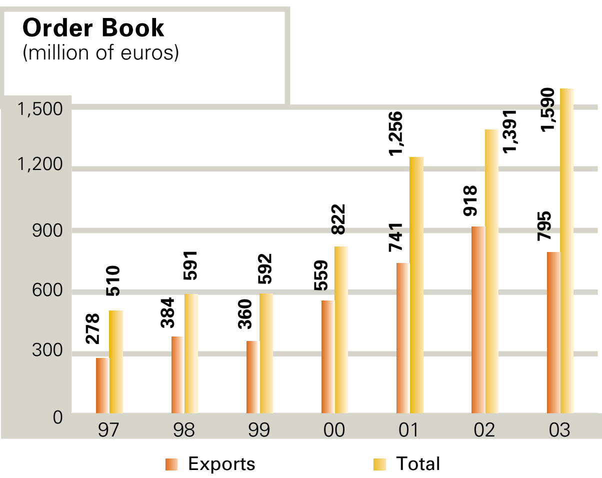
In recent years this report has highlighted the major railroad infrastructure plan which is being carried out in Spain, with particular emphasis on the new high-speed lines. The actions under this plan took the form of tenders called by RENFE in the last quarter of the year.

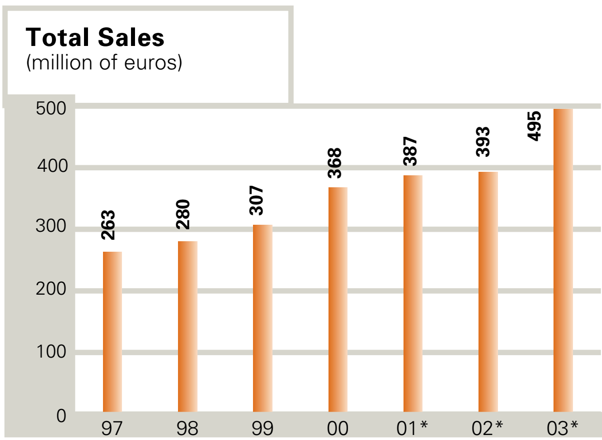
Taken as a whole, these tenders, which related basically to 250 km/h and 300 km/h high-speed trains, represented the most important purchase made by RENFE in its entire history. The tender for 250 km/h trains included a large number of variable-gauge units. CAF made a significant effort to develop the technology required to complete this order for 12 trains and, as a result, can now look forward confidently to supplying RENFE's new purchases.

With 2004 well under way, these expectations have been borne out, since, following the submission and shortlisting of the bids, RENFE awarded the consortium formed by CAF and another manufacturer the supply of 30 fixed-gauge 250 km/h high-speed trains and 45 variable-gauge 250 km/h high-speed trains. The second order is of particular importance since it reinforces CAF's commitment in a segment in which, due to the characteristics of the RENFE lines it has to share two different gauges, CAF's future is assured, guaranteeing its presence with its own technology in the high-speed segment.

With regard to suburban trains for RENFE, the successful entry into service of the first CIVIA trains, together with the new contract for a further 40 units, has firmly established CAF's position in this segment in which demand will foreseeably remain high over the next few years.

CAF's sound performance in urban and suburban transport secures a favorable position with regard to future extensions or the creation of new lines, including most notably the significant acquisitions of railroad materials announced by the Madrid subway and other railroad authorities





* Consolidated data 2001, 2002 and 2003

Industrial activity

Variable-gauge trains, shuttle-service trains, Inter City vehicles, commuter trains, subway trains, articulated units, trams, etc...

In 2003, with the delivery of the last three S/8000 units for line 8 of the Madrid subway and Metrosur, 8 "O.S." cars for Northern Spirit, 11 S/6000 "R.I." cars for the Madrid subway, 2 four-car FGC-112 units for Ferrocarriles Catalanes, 3 two-car units for the CAN CUIAS Barcelona subway line and 5 four-car CIVIA train units for RENFE, CAF completed the delivery schedule for the cars associated with these projects.

2003 also saw the delivery of 43 units for the Washington subway -WMATA-, 24 units for the city of Sacramento, 18 diesel train units for the Irish Republic and 6 diesel units for Mallorca. At the end of the year the first finished unit and five semi-finished units were delivered to the customer at Elmira, for the Pittsburgh Project.

Particularly worthy of note in other projects currently at the development phase is the advanced stage reached in the ADR diesel unit prototype for RENFE, which will soon be completed, and the considerable progress made on the completion of the first ATPRD variable-gauge train, also for RENFE, of the first diesel unit for Northern Ireland and the first fixed-gauge 250 km/h train for RENFE.

The progress made in 2003 on other more recent projects featured completion of manufacture of a shell of the first units for the Mexico City and Rome subways, which thus advanced as planned.

Also worthy of mention concerning the latest projects awarded was the performance of several phases of the design of 67 passenger cars for the Irish Republic, 17 units for the Seville subway and 39 units for the Barcelona subway.

With regard to the U.S. projects, substantially all the deliveries were made relating to the 96 units for the Washington subway and the 40 units for the city of Sacramento. With the exception of the series for the Pittsburgh project, which is currently in full production, these projects mark the end of an essential phase in CAF's penetration of the U.S. market.

The most important manufacturing projects in 2003 were as follows:

VEHICLES

Units (M+M) for the Washington DC Subway	86
Units (M+M) for the Sacramento LRV (USA)	48
Units (M+M) for the Pittsburgh LRV (USA)	2
Diesel units (DM1+MDT+MT+DM2) for the Irish Republic	72
Diesel units for Mallorca (5M+2R)	6
S/8000 units (M+R+M) for the Madrid subway line 8 and Metrosur	9
"O.S." cars for Northern Spirit	8
S/6000 "R.I." cars for the Madrid subway	11
CIVIA suburban units (A1+A2+A3+A4)	16
Units for FGC - 112 (3M+R)	8
Units for CAN CUIAS (M+M)	6
TOTAL	272

BOGIES

With welded steel rack (power car + trailer)	1,154

COMPONENTS

Mounted axles	2,771
Axle shafts	5,420
Wheels	40,734
Brackets	1,208
Grease boxes	3,093
Reduction gear	319
Pneumatic suspension units	24
Brake blocks	278
Scharfenberg couplers	219

Other supplementary materials manufactured were as follows:

Forged bars	76 Tm
Steel	40,186 Tm
Molded steel	974 Tm
Rings and flanges + crane wheels (units)	2,570
Reinforced plastic	500 Tm
Door wings (units)	2,129

The repairs carried out included:

s/3500 electric units	2
s/200 electric units	2
UT 403 streetcar	1

Human resources

The variations in the consolidated Group's labor force in 2003 were as follows:

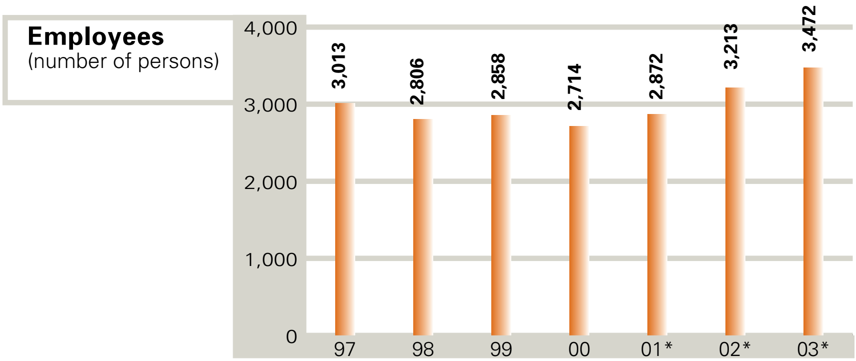
	Permanent	Total	Annual Average Headcount
12.31.02	2,684	3,527	3,213
12.31.03	2,705	3,505	3,472

During the year actions were defined to modify the Occupational Risk Prevention measures to comply with the amended regulatory framework.

The activities defined in the Environmental area were performed as scheduled, in preparation for the audit for the renewal of ISO 14001 certification.

Throughout the year the Group continued with its efforts to recruit qualified technicians, mainly with a view to reinforcing the engineering and technology areas.

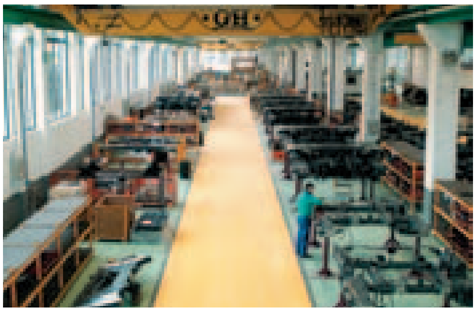
Noteworthy among the training activities in 2003 were those conducted in welded joint technologies, design and management skills, with a total of 47 courses and over 24,000 cumulative hours.



* Consolidated data 2001, 2002 and 2003

Capital Expedite in 2003

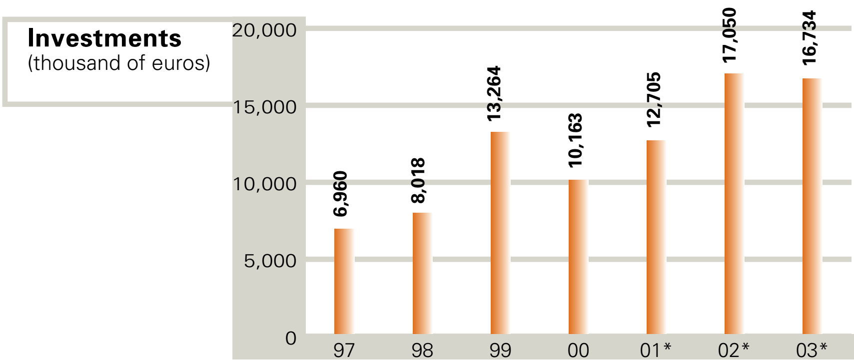
Aimed mainly at enhancing in-house technology, improving safety in the workplace, protecting the environment and increasing productivity.



In 2003 the Group's investments in fixed assets for its plants amounted to €16,734 thousand (excluding the effect of exchange rates), in line with the investment drive in prior years. Most of this expenditure was geared towards increasing productivity, safety in the workplace and improving environmental conditions.

The most representative investments made were as follows:

- New plant for the assembly and testing of variable-gauge bogies.
- Extension of finishing bays and facilities.
- Parts painting facility and drying oven.
- Implementation of computer hardware safety measures.
- Development of manufacture integration computer software.
- New three-dimensional CATIA workstations.
- Installation of localized extraction units.
- Test bay gas extraction.
- Extension of the aluminum bays.
- Automation of aluminum shell welding.
- Welding robot.



* Consolidated data 2001, 2002 and 2003

Technological development

The trains coming into service, which are constructed using CAF-technology, are the first passenger trains equipped with a variable-gauge technology that does not require the train to stop during the gauge-changeover process.

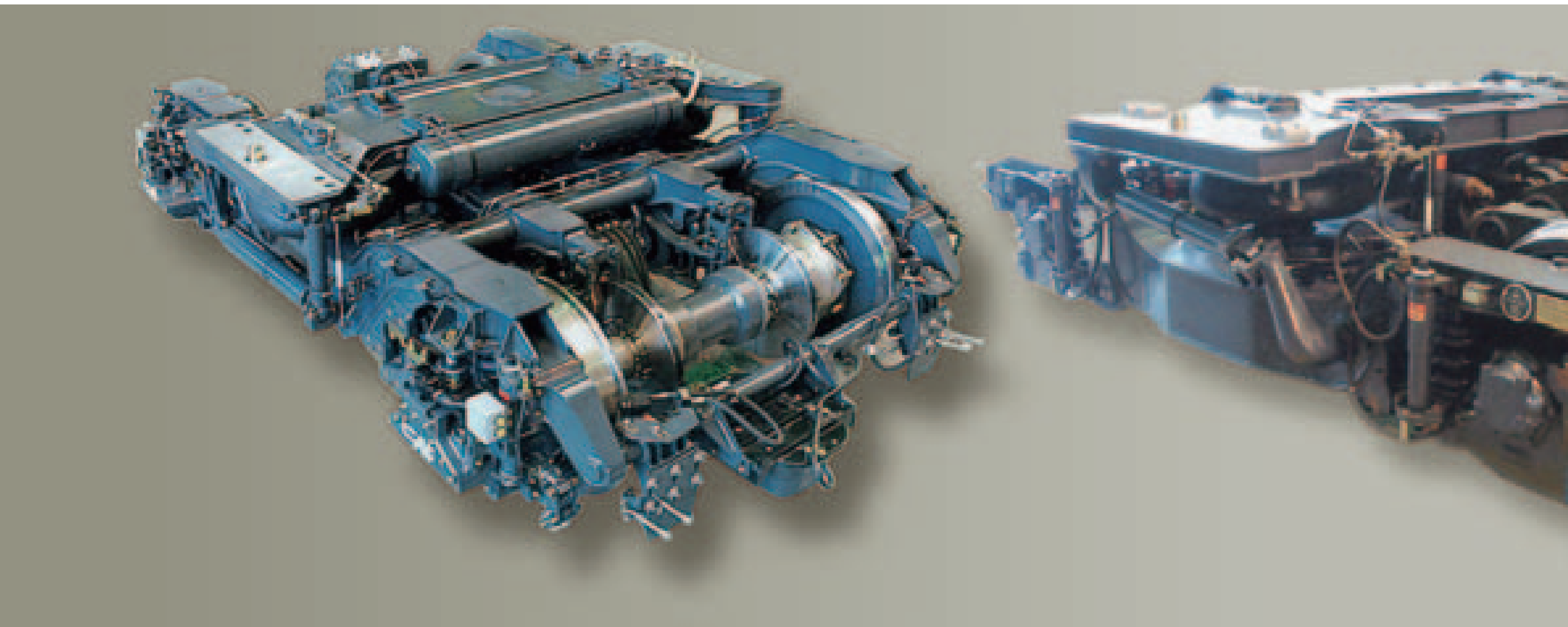
The main activities performed by the Engineering and Technology Departments in 2003 were as follows:

Basic research and technology

2003 saw the launch of the passenger service of the first TRD self-propelled diesel trains featuring variable-gauge axles. The services commenced in Andalucía using the Spanish gauge, and were subsequently extended in December to the Calatayud – Zaragoza – Huesca – Jaca line using both gages (Spanish and UIC). This is the first passenger train service in the world equipped with a variable-gauge technology that does not require the train to stop during the gauge-changeover process.

In 2003 the first CIVIA units were delivered to RENFE. These units use the COSMOS train supervision and control system which is based on a new TCN train communication standard. The operating performance of the new equipment proved to be totally satisfactory, which prompted CAF to use it in projects requiring the highest technical guarantees. This system, developed by our R&D department, led to the creation of Traintic, S.L., a CAF subsidiary engaged in the manufacture of electronic equipment.

CAF continued with its policy of working together with universities and technological centers in areas as diverse as Aerodynamics, Electronics and Railroad Dynamics. The institutions with which it has cooperated include the universities of Navarra and the Basque Country, the Madrid Polytechnic and the Ikerlan, CEIT, ITA and Inasmet technological centers.



Preliminary designs and proposals

This activity was developed throughout the year to support the commercial actions deployed by the Company. The most important designs were as follows:

Domestic market:

- Variable-gauge traction unit for RENFE.
- Variable-gauge diesel-electric locomotives for RENFE.
- Suburban units for RENFE.

Exports:

- Units for the Brussels subway.
- Diesel units for Corsica.
- Articulated units for the U.S.
- Diesel units for Tunisia.
- Streetcars for Turkey.
- Electric units for Gauteng (South Africa).
- Train-streetcar for The Hague.

Projects launched and in progress:

The new projects launched during the year were as follows:

- Passenger cars for the Irish Republic.
- Units for the Seville subway.
- Units for the Barcelona subway.

The Engineering Departments focused on the following projects which had commenced in 2002:

- Diesel tilting-system units (ADR) for RENFE.
- High-speed variable-gauge units (ATPRD) for RENFE.
- Diesel units for Northern Ireland.
- Units for the Rome subway.
- Units for the Mexico City subway.

Noteworthy in 2003 was the creation of CAF I + D as a legally separate entity with a view to promoting the technological activities of the Company as a whole.

OUTLOOK

CAF's short-term outlook can be summarized as follows:

- Gradual expansion of production capacity to cater for the increase in the backlog.

- Strengthening of the Company's industrial, technological and organizational areas through capital expenditure.

- Development of new products and implementation of advanced integrated project management systems.

- Maintenance of CAF's presence in the international railway equipment markets.

- Harnessing of the Company's potential in railroad service business lines.

Subsequent events

As of February 28, 2004, there was a firm backlog of €2,406.515 million.

There were no other significant events subsequent to year-end.

Auditor’s Report

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. 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.:

1. We have audited the consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. and subsidiaries composing the CAF Group (see Notes 1 and 2-c), which consist of the consolidated balance sheet as of December 31, 2003, and the related consolidated statement of income and notes to consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent Company's directors. 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 generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the consolidated financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.

2. As required by Spanish corporate law, for comparison purposes the directors present, in addition to the 2003 figures for each item in the consolidated balance sheet and consolidated statement of income, the figures for 2002. Our opinion refers only to the 2003 consolidated financial statements. Our auditors' report dated March 28, 2003, on the 2002 consolidated financial statements of the CAF Group contained an unqualified opinion.

3. In our opinion, the consolidated financial statements for 2003 referred to above present, in all material respects, a true and fair view of the net worth and financial position of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries composing the Construcciones y Auxiliar de Ferrocarriles Group as of December 31, 2003, and of the results of their operations in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a basis consistent with that of the preceding year.

5. The accompanying consolidated management report for 2003 contains the explanations which the directors of the Parent Company 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 management report is consistent with that contained in the consolidated financial statements for 2003. Our work as auditors was confined to checking the consolidated management report with the aforementioned scope, and did not include a review of any information other than that drawn from the Companies' accounting records.

DELOITTE & TOUCHE ESPAÑA, S.L.
Registered in ROAC under no. S0692

Joseba Ijalba
March 30, 2004

Deloitte & Touche España, S.L. Inscrita en el Registro Mercantil de Madrid, Tomo 13.650, folio 188, sección 8, hoja M-54414. inscripción 41, C.I.F.: B-79104469. Domicilio Social: Raimundo Fernández Villaverde, 65. 28003 Madrid

Financial Statements of the Consolidated Group

Construcciones y Auxiliar de Ferrocarriles, S.A.
and Subsidiaries (Consolidated)

Consolidated Balance Sheets

as of December 31 2003 and 2002
(Notes 1, 2 and 4) (In Euros)

Assets	12-31-03	12-31-02
FIXED AND OTHER NONCURRENT ASSETS		
Start-up expenses	**45,288**	**119,728**
Intangible assets, net (Note 5)	**17,596,420**	**14,205,971**
Tangible fixed assets (Note 6)		
Land and structures	81,364,820	78,449,694
Plant and machinery	135,093,360	125,149,082
Other fixtures, tools and furniture	8,600,657	8,371,022
Other tangible fixed assets	13,969,511	12,948,327
Advances and construction in progress	476,828	1,575
Accumulated depreciation	(158,084,722)	(149,131,408)
	81,420,454	**75,788,292**
Long-term investments, net (Note 7)	**18,779,808**	**11,046,968**
Total fixed and other noncurrent assets	**117,841,970**	**101,160,959**
DEFERRED CHARGES (Note 2-d)	—	**9,959,326**
CURRENT ASSETS		
Inventories (Note 8)	**29,452,853**	**64,218,845**
Accounts receivable		
Trade receivables for sales and services (Notes 9 and 12)	320,383,994	261,424,930
Receivable from associated companies (Note 7)	932,444	7,905,597
Sundry accounts receivable	2,773,568	3,091,648
Taxes receivable (Note 14)	5,718,570	4,623,438
Allowances	(1,082,406)	(1,054,460)
	328,726,170	**275,991,153**
Short-term investments (Note 10)	**49,815,394**	**3,766,493**
Cash	**3,226,237**	**810,362**
Accrual accounts	**315,002**	**761,531**
Total current assets	**411,535,656**	**345,548,384**
TOTAL ASSETS	**529,377,626**	**456,668,669**

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

Shareholders' equity and liabilities

	12-31-03	12-31-02
SHAREHOLDERS' EQUITY (Note 11)		
Capital stock	10,318,506	10,318,506
Additional paid-in capital	11,863,347	11,863,347
Revaluation reserve	28,034,368	28,034,368
Other reserves of the Parent Company	75,695,511	70,796,603
Reserves at fully consolidated companies and companies accounted for by the equity method	2,254,338	3,593,683
Translation differences	(2,750,817)	(4,367,890)
Income attributable to the Parent Company	11,605,548	9,838,103
Total shareholders' equity	**137,020,801**	**130,076,720**
MINORITY INTERESTS	**1,879,346**	**2,849,061**
DEFERRED REVENUES (Notes 2-d and 12)	**5,014,021**	**16,246,338**
PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 4-o)	**830,969**	**1,323,572**
LONG-TERM DEBT		
Other payables (Note 12)	47,363,700	37,752,011
Taxes payable (Note 14)	2,432,730	1,891,966
Uncalled capital payments payable	2,104,850	—
Total long-term debt	**51,901,280**	**39,643,977**
CURRENT LIABILITIES		
Payable to credit institutions	47,197	322,839
Payable to associated companies (Note 7)	1,329,363	324,306
Trade accounts payable		
Advances received on orders	133,407,850	133,314,097
Accounts payable for purchases and services (Note 12)	140,998,531	95,176,233
	274,406,381	**228,490,330**
Other nontrade payables		
Other payables	4,377,756	274,418
Taxes payable (Note 14)	20,963,598	12,964,141
Compensation payable	7,989,858	7,440,751
	33,331,212	**20,679,310**
Operating allowances (Note 15)	**23,574,121**	**16,666,957**
Accrual accounts	**42,935**	**45,259**
Total current liabilities	**332,731,209**	**266,529,001**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**529,377,626**	**456,668,669**

The accompanying Notes 1 to 21 are an integral part of the consolidated balance sheet as of December 31, 2003.

Construcciones y Auxiliar de Ferrocarriles, S.A.
and Subsidiaries (Consolidated)

Consolidated Statements

of income for the years ended December 31, 2003 and 2002 (Notes 1, 2 and 4) (In Euros)

Debit

	2003	2002
EXPENSES		
Decrease in finished goods and work-in-process inventories	82,767,840	14,429,237
Raw materials and other consumables used (Note 16)	195,072,687	195,035,331
Personnel expenses (Note 17)	133,177,214	118,095,336
Depreciation and amortization expense (Notes 5 and 6)	13,458,120	12,330,570
Net variation in operating allowances (Notes 7 and 15)	3,461,222	(2,653,410)
Other operating expenses		
Outside services	55,048,333	47,319,458
Taxes other than income tax	1,410,819	1,266,670
Operating income	**15,731,682**	**13,877,437**
Financial and similar expenses (Notes 12 and 13)	4,535,016	7,313,922
Variation in investment valuation allowances	—	—
Financial income	—	—
Income from ordinary activities	**14,733,286**	**12,509,311**
Variation in intangible asset, tangible fixed asset and control portfolio allowances	393,411	—
Extraordinary expenses (Note 7)	9,632	510,080
Extraordinary income	—	**59,552**
Consolidated income before taxes (Note 14)	**14,403,429**	**12,568,863**
Corporate income tax (Notes 4-m, 14 and 15)	3,819,985	8,606,613
Consolidated income for the year	**11,645,754**	**9,962,250**
Income attributed to minority interests	40,206	124,147
Income for the year attributed to the Parent Company	**11,605,548**	**9,838,103**

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

Credit

	2003	2002
REVENUES		
Net sales (Note 16)	495,479,207	392,488,865
Capitalized expenses of in-house work on fixed assets	1,087,200	342,751
Other operating revenues		
Non-core and other current operating revenues (Note 12)	598,342	2,961,296
Operating subsidies (Notes 2-d and 12)	2,963,168	3,907,717
Operating loss	—	—
Revenues from equity investments (Note 7)	954	4,676
Other interest and similar revenues (Note 10)	3,322,165	5,698,298
Financial loss	**1,211,897**	**1,610,948**
Share in the income of companies accounted for by the equity method	213,501	242,822
Loss on ordinary activities	—	—
Gains on tangible fixed asset disposals (Note 6)	68,306	77,877
Capital subsidies transferred to income for the year	—	420,903
Prior years' revenues and income	4,880	5,611
Extraordinary revenues	—	65,241
Extraordinary loss	**329,857**	—
Consolidated loss before taxes	—	—
Positive adjustments to income taxes (Note 4-n)	1,062,310	6,000,000
Consolidated loss for the year	—	—
Loss attributed to minority interests	—	—
Loss for the year attributed to the Parent Company	—	—

The accompanying Notes 1 to 21 are an integral part of the consolidated statement of income for the year ended December 31, 2003.

Construcciones y Auxiliar de Ferrocarriles, S.A.
and Subsidiaries

Notes to Consolidated Financial Statements

For the year ended December 31, 2003

1 DESCRIPTION OF THE PARENT COMPANY

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

Its corporate purpose is described in Article 2 of its bylaws.

The Parent Company currently engages mainly in the manufacture of railroad materials.

The Parent Company, as part of its business activities, owns majority holdings in the capital stock of other companies (see Note 2-c).

2 BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) True and fair view

The accompanying consolidated financial statements as of December 31, 2003, which were prepared from the individual accounting records of the consolidated companies and are presented in accordance with the Spanish National Chart of Accounts and with Royal Decree 1815/1991 on the Preparation of Consolidated Financial Statements, give a true and fair view of the CAF Group's net worth, financial position and results of operations for 2003. These consolidated financial statements, which were prepared by the Parent Company's directors, will be submitted for approval by the Parent Company's Shareholders' Meeting and are expected to be approved without any changes.

The 2002 consolidated financial statements prepared by the Board of Directors were approved by the Shareholders' Meeting on June 7, 2003 (see Note 11).

b) Accounting policies

The accounting principles used in preparing these consolidated financial statements are those included in the Spanish Commercial Code, the current Spanish Corporations Law, the Spanish National Chart of Accounts, as approved by Royal Decree 1643/1990, and Royal Decree 1815/1991 approving the Rules for the Preparation of Consolidated Financial Statements.

c) Consolidable Group and consolidation principles

Scope of consolidation

The accompanying consolidated financial statements for the year ended December 31, 2003, were prepared from the individual accounting records as of December 31, 2003, of Construcciones y Auxiliar de Ferrocarriles, S.A. (Parent Company) (see Note 1) and of the subsidiaries listed below:

	% of Direct and Indirect Ownership	Location	Line of Business	Auditor
Fully consolidated companies				
CAF	Parent Company	Guipúzcoa (Spain)	Marketing and manufacture of railroad equipment and components	Deloitte
CAF USA, Inc.	100%	Delaware (USA)	Manufacture and assembly of railroad equipment and components	Deloitte
CAF México, S.A. de C.V.	100%	México D.F. (México)	Marketing and manufacture of railroad equipment and components	Deloitte
CAF Brasil Ind. e C., S.A.	100%	São Paulo (Brazil)	Marketing and manufacture of railroad equipment and components	Ernst & Young
CAF Argentina, S.A.	99.9%	Buenos Aires (Argentina)	Repair and maintenance of railroad equipment and components	Ernst & Young
Inversiones en Concesiones Ferroviarias, S.A. (*)	77.6%	Guipúzcoa (Spain)	Promotion and development of companies through short-term holdings in their capital stock	Arco Auditores
Sermanfer, S.A.	100%	Madrid (Spain)	Railroad material maintenance services	Audiconta
Urbanización Parque Romareda, S.A.	100%	Zaragoza (Spain)	Ownership of shares	N/A
Companies accounted for by the equity method (Note 7)				
AAI-CAF Transit, LLC	50%	Maryland (USA)	Assembly of railroad equipment and components	Deloitte
Sab Ibérica, S.A.	24.5%	Madrid (Spain)	Sale of railroad braking equipment	Deloitte

(*) The only company that contributes minority interests.

The main variation in the scope of consolidation in 2003 related to the exclusion of Metro de Salvador, S.A., which was in the process of being dissolved. The effect of not including this company in the scope of consolidation is not material.

Consolidation method

The majority holdings were fully consolidated and, where appropriate, the minority interests were recognized under the "Minority Interests" caption in the accompanying consolidated balance sheet. All material accounts and transactions between the consolidated companies were eliminated in preparing the consolidated financial statements.

Also, except as indicated below, the holdings in the capital stock of companies in which there is an ownership interest of 20% or more but of less than 50% are valued at the fraction of the net worth corresponding to these holdings, net of the dividends collected from them and other net worth eliminations (equity method). The effect of proportionally consolidating the investment in AAI-CAF Transit, LLC would not be material.

Also, in accordance with Royal Decree 1815/1991 approving the Rules for the Preparation of Consolidated Financial Statements, the Parent Company's directors have excluded from the consolidable Group the companies listed in Note 7, in which there is an ownership interest equal to or exceeding 20%, since it is considered that as a whole they are of scant significance with respect to the stated purpose. Consequently, these companies are valued as indicated in Note 4-c.

Translation of financial statements in foreign currency

The financial statements in foreign currency 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 exchange rates prevailing at year-end and the income-statement accounts 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 result for the year, which is translated as stated above) and the net worth position arising from the translation of the assets, rights and obligations at the year-end exchange rates is recorded under "Shareholders' Equity - Translation Differences" in the consolidated balance sheet, net of the portion of the difference that relates to minority interests, which is recorded under the "Minority Interests" caption.

In line with standard practices, the consolidated financial statements do not include the tax effect of transferring the reserves and income of the consolidated subsidiaries to the Parent Company's accounts.

d) Comparative information

As explained in Note 12, the Parent Company has been receiving certain interest-free "refundable advances" for the performance of certain R&D projects (see Notes 5, 6 and 8).

In 2001 and 2002 the Parent Company recorded with a charge to "Deferred Charges" the financial effect (calculated on the basis of the benchmark rates published by the EU for Spain) relating to the discount to present value of these loans, which was allocated to income ("Financial and Similar Expenses") by the interest method. Simultaneously, the same amount was recorded as a subsidy received for certain R&D projects under "Deferred Revenues" and was allocated to income in accordance with the accounting methods described in Notes 4-h and 4-n.

In 2003 the Parent Company recalculated this equivalent aid at the effective rate applicable to CAF, which led to the reduction of the balances of the "Deferred Charges " and "Deferred Revenues" captions by approximately €6,958 thousand. Subsequently, in accordance with the accounting principle of prudence, these refundable advances were recorded at their face value, without considering the related positive financial effect. Accordingly, the Parent Company wrote off this effect by reducing the balances of the "Deferred Charges" and "Deferred Revenues" captions by €3,001 thousand and €2,559 thousand, respectively. The difference between the two amounts was recorded with a credit of €1,616 thousand to the "Financial and Similar Expenses" caption and a charge of €2,058 thousand to the "Other Operating Revenues – Operating Subsidies" caption in the accompanying 2003 consolidated statement of income.

In the opinion of the Parent Company's directors, had the same method been applied to the 2002 consolidated statement of income, the net effect thereof would not have been material.

3 DISTRIBUTION OF INCOME

The Parent Company's directors propose the following distribution of 2003 income:

Distribution	Euros
To voluntary reserves	6,667,824
Dividends	3,736,602
Total	**10,404,426**

4 VALUATION STANDARDS

The main valuation methods applied by the CAF Group in preparing its consolidated financial statements as of December 31, 2003, in accordance with current legislation, were as follows:

a) Intangible assets

Computer software and research and development projects for which there are no doubts as to their technical and commercial success are valued at their acquisition cost (or, as appropriate, at the accumulated manufacturing cost allocated in accordance with inventory valuation methods - see Note 4-d). Computer software is amortized on a straight-line basis over five years from its acquisition (see Note 5). The R&D projects are amortized on a straight-line basis over five years from the date of their acquisition or completion or are recovered as an addition to the cost of the development contracts obtained over that period, in which case they are transferred to or from inventories (see Note 5).

b) Tangible fixed assets

Tangible fixed assets are carried at cost, revalued in the case of the Parent Company pursuant to the applicable legislation, including Guipúzcoa Regulation 11/1996 and Guipúzcoa Regulation 13/1990 (see Notes 6 and 11-d).

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

In-house work performed by the consolidated companies on fixed assets is recorded at the related accumulated production cost allocated in accordance with inventory valuation methods (see Note 4-d).

Tangible fixed assets are depreciated by the straight-line method at annual rates based on the following years of estimated useful life:

	Years of Estimated Useful Life
Structures	25 – 50
Plant and machinery	6 – 10
Other fixtures, tools and furniture	3 – 10
Other tangible fixed assets	10

c) Long- and short-term investments

Long-term investments (not fully consolidated or accounted for by the equity method - see Notes 2-c and 7) are valued at cost, or at redemption or market value (taken to be the share market price or underlying book value as of December 31, 2003, as appropriate) if the latter two values are lower, in which case the related allowance is recorded with a charge to the "Variation in Investment Valuation Allowances" caption.

Long-term accounts receivable are valued at the amount effectively granted. As of December 31, 2003, there were no material long-term accounts receivable without explicit interest.

Short-term investments (see Note 10) are valued at the lower of cost or redemption value. The related interest earned is recorded under the "Other Interest and Similar Revenues" caption in the accompanying consolidated statement of income.

d) Inventory valuation

Raw materials and other supplies and merchandise are valued at the lower of average cost or market.

Work-in-process and finished and semifinished goods are presented net of settled costs by the method described in Note 4-e, and are valued as follows:

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

2. Processing expenses: based on standard hourly absorption rates for labor and direct and indirect manufacturing expenses, which do not differ materially from actual hourly rates.

e) Recognition of partial revenues and income on contracts

The Group generally recognizes revenues and income on contracts on the basis of the estimated percentage of completion, calculated on the basis of the ratio of actual hours allocated to a contract to the total budgeted hours. Potential losses on project contracts are recorded in full when they become known or can be estimated.

Once the projected income on each contract has been determined, the Group applies the following correcting coefficients to determine income and revenues:

– With a percentage of completion from 0 to 10%, no income or revenues are recorded.

– From 10% onwards, a percentage of income and revenues equal to the percentage of completion is recorded.

Based on the revenues earned, the projected income for each contract (determined as described above) and the percentage of completion, inventories are retired for the amount of the settled costs with a charge to the related income statement account and a credit to the "Goods- and Work-in-Process Settlements in Excess of Incurred Cost" caption, which is recorded as a reduction of the "Inventories" caption on the asset side of the consolidated balance sheet (see Note 8).

f) Customer advances and completed products

The difference between the revenues recognized for each project (see Note 4-e) and the amount billed is recorded as follows:

– If the difference is positive, under the "Trade Receivables for Sales and Services – Unbilled Completed Projects" caption.

– If it is negative, under "Advances Received on Orders".

g) Allowance for bad debts

The Group records provisions to this allowance to cover bad debts due to late payment, "suspension de pagos" (Chapter 11-type insolvency proceedings), insolvency or other reasons, after performing a case-by-case analysis of the collectibility of the receivables. The Group recorded a provision of approximately €28 thousand in connection to this in 2003.

h) Foreign currency transactions and other commitments

The foreign currency asset and liability balances of foreign consolidated companies were translated to euros as explained in Note 2. The remaining foreign currency asset and liability balances (see Notes 9 and 10) are generally translated to euros at the exchange rates prevailing at the transaction date or at the hedged exchange rates, except for the unhedged foreign currency cash balances, which were translated at the exchange rates prevailing as of December 31, 2003.

i) Subsidies

1. Nonrefundable capital subsidies are recorded under "Deferred Revenues" when definitively granted, at the amount granted, and are credited to income basically in proportion to the period depreciation on the subsidized assets.
2. Operating subsidies are credited to income on the date on which they are definitively granted. In addition to the revenues described in Note 12, in 2003 the Group recorded revenues of €1,151 thousand under the "Other Operating Revenues – Operating Subsidies" caption.

j) Long-term debt

In the accompanying consolidated balance sheet, debts maturing in over 12 months from the balance sheet date are recorded under this caption at their repayment value.

k) Early retirement payments and severance costs

The accompanying consolidated financial statements as of December 31, 2003, do not include any provision in connection to this, since the consolidated companies have not approved any early retirement plan and no terminations giving rise to significant severance costs are expected. The amounts paid in this connection in 2003 were not material.

l) Provisions for pension commitments

The consolidated companies pay defined-contribution premiums to external pension funds deposited at independent insurance companies to cover their statutory and contractual obligations to certain of their employees in the case of retirement or death.

m) Operating allowances

This caption in the accompanying consolidated balance sheet includes the allowances recorded by the Group to cover mainly warranty and contract support service expenses (see Note 15) and other contingencies arising in the course of its operations (royalties, penalties, etc.). The consolidated companies recorded under "Variation in Operating Allowances" the difference between the operating allowances required at 2003 year-end and those recorded at 2002 year-end. The expenses incurred in 2003 (approximately €7,872 thousand) were recorded under "Raw Materials and Other Consumables Used" and "Personnel Expenses".

n) Corporate income tax

The expense for corporate income tax for the year, which includes taxes borne abroad, is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, which are deemed to be the differences arising between the taxable income and the book income before taxes which do not reverse in subsequent periods.

In accordance with current legislation, the tax assets relating to unused tax relief and tax credits are recorded for accounting purposes provided that it is anticipated that they will meet the conditions established by tax legislation. As of December 31, 2003, the Group had recorded a tax asset of €6,000 thousand in connection to this after estimating the corporate income tax charge for 2003 (see Note 14) and after recording €1,062 thousand with a credit to the "Positive Adjustments to Income Taxes" caption in the accompanying consolidated statement of income. In addition, and in view of the inherent uncertainty regarding the recovery of assets of this nature, the Group, in accordance with the accounting principle of prudence and based on an evaluation of its backlog, maintained the provision of €3.5 million already recorded in 2002 (see Note 15).

Also, €4,978 thousand of the recorded tax asset were included under the "Long-Term Investments - Long-Term Claims Arising From Unused Tax Credits and Tax Relief" caption (see Note 7) and the remainder was recorded under the "Taxes Receivable – Short-Term Claims Arising From Unused Tax Credits and Tax Relief" caption in the accompanying consolidated balance sheet as of December 31, 2003 (see Note 14).

ñ) Recognition of revenues and expenses

Revenues and expenses are recognized 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 consolidated companies only record realized income at year-end, whereas foreseeable contingencies and losses, including potential losses, are recorded as soon as they become known.

o) Provisions for contingencies and expenses

The Group records provisions for the estimated amount required to adequately cover probable or certain third-party liability arising from contingencies, litigation in progress and/or obligations of undetermined amount. In 2003 the Group made payments amounting to €1,002 thousand and recorded €505 thousand in connection to this with a charge to "Other Expenses – Personnel Expenses" (see Note 17).

p) Environmental matters

The Group records environmental investments at acquisition or production cost, net of accumulated depreciation, under the appropriate "Tangible Fixed Assets" caption (see Notes 6 and 16-e).

Expenses incurred in compliance with applicable environmental legislation are recorded by type under the "Other Operating Expenses" caption in the accompanying statement of income (see Note 16-e).

q) Exchange rate hedges

The Company uses these instruments to hedge the project contracts obtained by it and certain investments in investees.

The purpose of these transactions is to eliminate or significantly reduce the exchange rate risk exposure on asset and liability positions or on other transactions and, since they meet the necessary conditions, they are treated as hedging transactions. The amounts relating to projects in progress are translated to euros at the hedged rate, whereas in the case for investment hedges the gain or loss arising from these hedging transactions is accrued symmetrically to the revenues or costs of the hedged item under the "Translation Differences" caption.

5 INTANGIBLE ASSETS

The variations in this caption in 2003 were as follows:

	Balance at 12.31.02	Additions or Provisions (*)	Retirements or Reductions	Transfers from Inventories (Note 8)	Transfers to Inventories (Note 8)	Balance at 12.31.03
Cost:						
Research and development expenses (Notes 4-h and 12)	13,116,250	6,338,474	—	4,139,997	(3,687,805)	19,906,916
Computer software	9,246,592	4,703	(45,466)	—	—	9,205,829
Total Cost	**22,362,842**	**6,343,177**	**(45,466)**	**4,139,997**	**(3,687,805)**	**29,112,745**
Accumulated amortization:						
Research and development expenses	4,180,837	1,584,781	—	—	—	5,765,618
Computer software	3,976,034	1,820,139	(45,466)	—	—	5,750,706
Total accumulated amortization	**8,156,871**	**3,404,920**	**(45,466)**	**—**	**—**	**11,516,324**
Intangible assets, net	**14,205,971**	**2,938,257**	**—**	**4,139,997**	**(3,687,805)**	**17,596,420**

(*) Includes the effect of translation of foreign currencies.

6 TANGIBLE FIXED ASSETS

The variations in tangible fixed asset accounts and in the related accumulated depreciation in the year ended December 31, 2003, were as follows:

	Euros				
	Balance at 12.31.02	Additions or Provisions (*)	Transfers	Retirements or Reductions (*)	Balance at 12.31.03
Cost:					
Land and structures	78,449,694	2,910,361	15,676	(10,911)	81,364,820
Plant and machinery	125,149,082	10,605,949	(13,090)	(648,581)	135,093,360
Other fixtures, tools and furniture	8,371,022	342,626	(2,586)	(110,405)	8,600,657
Other tangible fixed assets	12,948,327	1,181,146	—	(159,962)	13,969,511
Advances and construction in progress	1,575	476,828	—	(1,575)	476,828
Total cost	**224,919,700**	**15,516,910**	**—**	**(931,434)**	**239,505,176**
Accumulated depreciation:					
Structures	42,654,108	1,657,573	283,353	(144)	44,594,890
Plant and machinery	92,226,019	6,351,454	(283,353)	(652,764)	97,641,356
Other fixtures, tools and furniture	5,322,572	501,452	—	(125,660)	5,698,364
Other tangible fixed assets	8,928,709	1,292,900	—	(71,497)	10,150,112
Total accumulated depreciation	**149,131,408**	**9,803,379**	**—**	**(850,065)**	**158,084,722**
Tangible fixed assets, net	**75,788,292**	**5,713,531**	**—**	**(81,369)**	**81,420,454**

(*) Includes the effect of translation of foreign currencies.

The revaluations made pursuant to Guipúzcoa Regulation 11/1996 and Guipúzcoa Decree 13/1991 increased the depreciation charges for 2003 and prior years by approximately €127 thousand and €14,386 thousand, respectively.

As of December 31, 2003, the Group had firm tangible fixed asset purchase commitments amounting to approximately €4,287 thousand.

The consolidated companies take out insurance policies to adequately cover their tangible fixed assets. As of December 31, 2003, the insurance policies covered the net book value of the tangible fixed assets at that date.

The gross cost of the fully depreciated assets still in use as of December 31, 2003, totaled approximately €117,666 thousand.

7 LONG-TERM INVESTMENTS

a) Variations

The variations in "Long-Term Investments" in 2003 were as follows:

	Euros				
	Balance at 12.31.02	**Net Additions or Provisions (*)**	**Retirements or Reductions (*)**	**Transfers**	**Balance at 12.31.03**
Long-term investments:					
Investments in companies accounted for by the equity method (Note 2-c)	469,099	—	(29,321)	—	439,778
Other holdings	1,711,601	8,479,502 (1)	(566,652)	—	9,624,451
Other loans	1,755,260	671,453	(43,826)	7,671	2,390,558
Other investments	7,671	—	—	(7,671)	—
	3,943,631	**9,150,955**	**(639,799)**	**—**	**12,454,787**
Taxes receivable (Note 14):					
Prepaid taxes	2,023,464	130,160	—	(423,607)	1,730,017
Long-term claims arising from unused tax credits and tax relief (Notes 4-n and 14)	5,043,000	1,062,000	—	(1,127,000)	4,978,000
Other	1,629	—	—	—	1,629
	7,068,093	**1,192,160**	—	**(1,550,607)**	**6,709,646**
Trade receivables for sales and services (Note 9)	1,720,485	28,643	—	—	1,749,128
Allowances (Note 4-f)	(1,685,241)	(453,729)	5,217	—	(2,133,753)
Total long-term investments	**11,046,968**	**9,918,029**	**(634,582)**	**(1,550,607)**	**18,779,808**

(*) Includes the effect of translation of foreign currencies.

(1) Relates mainly to the investment in Guadalmetro (see Note 7-b).

b) Basic data on investees

In accordance with the Spanish National Chart of Accounts, set forth below are the salient data on the investees more than 20% and less than 50% owned by the Group and on the companies which due to their scant materiality are excluded from the scope of consolidation:

Name	Registered Office	Line of Business and Corporate Purpose	Percentage of Ownership		Gross Book Value	Basic Financial Data (1)			Auditor
			Direct	Indirect		Capital	Reserves and Accumulated Income (Loss)	2003 Income (Loss)	
CAF I+D (Sole-Shareholder Company)	Guipúzcoa	Research and development	100%	—	3,006	3,006	—	5,083	(3)
(2) SASISMAG, S.A. (Sole-Shareholder)	Guipúzcoa	Preparation of operating manuals	—	100%	60,101	60,101	115,755	257	Alter Consulting
(2) IPAR SISTEMAS 2002, S.L.	Guipúzcoa	Portfolio company	—	99.9%	176,105	3,606	170,486	(641)	—
(2) Traintic, S.L.	Guipúzcoa	Manufacture of electronic products	—	99.9%	60,000	60,000	(2,345)	73,152	BSK
(2) Lander Simulation and Training Solutions, S.A.	Guipúzcoa	Study and manufacture of simulators	—	40%	270,446	150,250	215,474	265,966	S.M. Auditores

(1) After adjustments and unification for consolidation purposes.
(2) Through CAF I+D.
(3) Reviewed by Deloitte.

c) Transactions with associated companies

	Euros		
Company	**Services Provided or Sales**	**Services Received or Purchases**	**Dividends**
Sab Ibérica, S.A.	232,818	2,995,015	242,822
CAF I+D	84,199	259,676	—
Traintic	13,100	1,340,502	—
Other	—	1,350,490	—

As a result of these transactions, of those performed in prior years and of the advances granted, in addition to the data contained in Note 7-b, the Group's balances with associated companies as of December 31, 2003, were as follows (see Note 4-c):

	Euros	
Company	**Accounts Receivable**	**Accounts Payable**
Sab Ibérica, S.A.	32,726	577,397
Metro de Salvador, S.A.	222,657	—
CAF I+D	665,107	301,224
Traintic (1)	652,324	—
Alquiler de trenes AIE (2)	11,954	32,218,481
Guadalmetro (2)	—	2,325,760
Other	—	450,742
	1,584,768	**35,873,604**

(1) Recorded under the "Inventories – Advances to Suppliers" caption (see Note 8).

(2) Recorded under the "Trade Accounts Payable – Advances Received on Orders" caption.

In addition, the Group recorded an account receivable from Cartera Social for €2,541 thousand (see Note 11).

The Group companies have an 85% holding in Metro de Salvador, S.A., which obtained a contract to operate and maintain the Salvador de Bahía subway, a project that was ultimately abandoned. Accordingly, in 2003 capital was reduced at this company with a view to its subsequent dissolution. The Group's investment in this subsidiary as of December 31, 2003, after the capital reduction, was €484 thousand, which was fully provisioned following the €243 thousand recorded in connection to this in 2003.

This transaction, which reduced the Group's long-term investments by a net amount of €2,955 thousand, had no impact on the statement of income, since it related to undisbursed capital.

CAF has a 5% ownership interest in Alquiler de Trenes A.I.E. and the remaining 95% is owned by Gipuzkoa Donostia Kutxa, which in normal circumstances exercises control over this company since it holds 95% of the voting and dividend rights (see Note 11-b). Alquiler de Trenes, A.I.E. has been awarded contracts for the supply of trains for their subsequent lease to the Autoritat del Transporte Metropolita. The Group's investment amounts to €1,202 thousand and in 2003 it recorded €92 thousand with a charge to the "Variation in Investment Valuation Allowances" caption in the accompanying 2003 consolidated statement of income.

On June 12, 2003, Guadalquivir Sociedad Concesionaria de la Junta de Andalucía – Guadalmetro, S.A. was incorporated. This company, whose registered office is located in Seville, was awarded the concession to construct and operate Line 1 of the Seville subway. The Group's ownership interest in this company amounts to €8,419 thousand, representing 9.79% of its capital stock and, as of December 31, 2003, the amounts payable in connection to this, €2,104 thousand and €4,378 thousand, were recorded under the "Long-Term Debt – Uncalled Capital Payments Payable" and "Current Liabilities – Capital Calls Payable" captions, respectively, in the accompanying consolidated balance sheet as of December 31, 2003.

8 INVENTORIES

The breakdown of the balance of the "Inventories" caption as of December 31, 2003 and 2002, is as follows:

	Euros	
	12.31.03	**12.31.02**
Raw materials and other supplies (Note 16)	49,615,098	14,700,814
Work-in-process, and finished and semifinished goods	346,470,538	323,903,554
Goods- and work-in-process settlements in excess of incurred cost (Note 4-e)	(410,247,991)	(301,511,917)
Advances to suppliers	43,615,208	27,126,394
	29,452,853	**64,218,845**

As of December 31, 2003, the Group had firm raw material purchase commitments amounting to approximately €402,629 thousand (see Note 20).

9 TRADE RECEIVABLES FOR SALES AND SERVICES

The breakdown of the balance of the "Trade Receivables for Sales and Services" caption as of December 31, 2003, is as follows:

	Euros
Receivable from customers billed in euros	214,371,962
Receivable from customers billed in foreign currencies (Note 4-g)	106,012,032
	320,383,994

The balance of "Receivable from Customers Billed in Euros" as of December 31, 2003, included mainly the accounts receivable from Renfe for €125,968 thousand. The balance of "Receivable from Customers Billed in Foreign Currencies" included mainly the accounts receivable relating to the work performed for the Washington Metropolitan Area Transit Authority and the Port Authority of Allegheny County (Pittsburg) for an equivalent euro value of €29,399 thousand and €39,015 thousand, respectively.

10 SHORT-TERM INVESTMENTS

The detail of the balance of this caption as of December 31, 2003, is as follows:

	Euros
Time deposits	48,306,008
Foreign currency deposits (Note 4-g)	1,208,795
Other	300,591
Rights under the share-ownership scheme	151,095
Allowances	(151,095)
	49,815,394

In prior years the Company acquired from Cartera Social, S.A. (see Note 11) an asset instrumented in a series of rights composing a CAF share-ownership scheme consisting basically of the delivery by Cartera Social to CAF's employees, at the date of termination of their employment relationship with the Company, of one share of CAF for each right. The rights recorded by CAF as of December 31, 2003, will foreseeably be sold to employees in the coming years. Rights with a cost and a related allowance of approximately €734 thousand and €324 thousand, respectively, were sold in 2003.

The revenues from time deposits and the returns on temporary cash surpluses and bank deposits totaled €239 thousand and are recorded under "Other Interest and Similar Revenues". The remaining balance relates to exchange gains.

11 SHAREHOLDERS' EQUITY

a) Variations

The variations in equity accounts in 2003 were as follows:

	Euros								
		Reserves							
	Capital Stock	Additional Paid-in Capital	Revaluation Reserve	Legal Reserve	Voluntary Reserves	Translation Differences	Reserves at Consolidated Companies	Income for the Year	Dividends
Balance at December 31, 2002	10,318,506	11,863,347	28,034,368	2,063,704	68,732,899	(4,367,890)	3,593,683	9,838,103	—
Distribution of 2002 income	—	—	—	—	4,898,908	—	1,202,593	(9,838,103)	3,736,602
2003 income	—	—	—	—	—	—	—	11,605,548	—
Other additions	—	—	—	—	—	1,617,073	(2,541,938)	—	—
Balance at December 31, 2003	**10,318,506**	**11,863,347**	**28,034,368**	**2,063,704**	**73,631,807**	**(2,750,817)**	**2,254,338**	**11,605,548**	**3,736,602**

b) On June 7, 2003, the Shareholders' Meeting resolved to distribute a dividend of €3,736,602 out of 2002 income

c) Capital stock of the Parent Company

As of December 31, 2003, the Parent Company's capital stock consisted of 3,428,075 fully subscribed and paid listed shares of €3.01 par value each, all of which are traded by the book-entry system.

The companies holding over 10% of the Parent Company's capital stock as of December 31, 2003, are as follows:

	% of Ownership
Cartera Social, S.A. (Note 15)	18.43% (*)
Bilbao Bizkaia Kutxa	24.82%
Gipuzkoa Donostia Kutxa	20.7%
Bestinver Gestión, S.A. S611C	11.3%

(*) The shareholders of this company are also employees of the Parent Company.

On June 7, 2003, the Shareholders' Meeting resolved to empower the Board of Directors of the Parent Company to increase capital stock by up to €5,159,253 within five years at one or several times, respecting the preemptive subscription right. This authorization has not yet been used. Also on June 7, 2003, the Shareholders' Meeting empowered the Board of Directors to acquire treasury stock within 18 months from that date.

The balance of the "Additional Paid-in Capital" account is unrestricted as to its use.

The amount of the unrestricted reserves of the Parent Company as of December 31, 2003, with respect to the balance of the unamortized research and development expenses, signifies that there are no restrictions on the payment of dividends.

d) Reserves and results of fully consolidated companies and companies accounted for by the equity method

The detail of the contribution of the consolidated companies to the balance of the "Reserves at Fully Consolidated Companies and Companies Accounted for by the Equity Method" caption in the consolidated balance sheet as of December 31, 2003, and to consolidated income for 2003, is as follows:

	Euros	
	Reserves (1)	Income
CAF México, S.A. de C.V.	484,496	89,323
CAF Brasil Ind, e C., S.A.	595,638	203,252
CAF Argentina, S.A.	—	273,199
CAF USA, Inc.	717,228	1,106,256
Inversiones en Concesiones Ferroviarias, S.A.	148	139,045
Sermanfer, S.A.	16,823	7,183
Urbanización Parque Romareda, S.A.	55,735	3,260
Sab Ibérica, S.A.	384,270	213,501
A.A.I. CAF Transit, LLC	(*)	(*)
	2,254,338	

(*) The related effect was taken into account in the individual financial statements of CAF USA, Inc.

(1) Taking into account that the eliminations in the consolidation process are charged/credited to this account.

e) Translation differences

The detail, by company, of the "Translation Differences" caption as of December 31, 2003, is as follows:

	Euros
CAF México, S.A. de C.V.	(401,114)
CAF Brasil Ind. e C., S.A.	(612,512)
CAF Argentina, S.A.	(57,696)
CAF USA, Inc.	(1,679,495)
	(2,750,817)

f) Legal reserve

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount.

Except as mentioned above, until the legal reserve exceeds 20% of capital stock it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

g) Revaluation reserve

The amount of these asset revaluations (see Notes 4-b and 6) as of December 31, 2003, was allocated to the following accounts:

	Euros
Revaluation reserve Law 9/1983	7,954,468
Revaluation reserve Guipúzcoa Decree 13/1991	11,378,927
Revaluation reserve Guipúzcoa Regulation 11/1996	8,700,973
	28,034,368

Revaluation pursuant to Law 9/1983 and Guipúzcoa Decree 13/1991

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

Revaluation pursuant to Guipúzcoa Regulation 11/1996

This balance can be used to offset recorded losses and to increase capital stock, and the remainder, if any, can be added 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.

12 OTHER LONG-TERM PAYABLES

Under the Program to Foster Research and Technology (PROFIT), the Ministry of Science and Technology granted certain aid to the Group to conduct research and development projects in the period from 2000 to 2003. This aid, which is recorded on the date it is effectively collected or, if applicable, when collected by the coordinator of the joint project, consists of:

• Subsidies to partially offset 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 repayable in a period of over 10 years.

This aid, which in the event of noncompliance must be refunded with interest, is recorded as follows:

– Subsidies are recorded under the "Deferred Revenues" caption and are taken to income with a credit to the "Operating Subsidies" caption.

– Refundable advances are recorded under the "Long-Term Debt – Other Payables" caption.

The variations in 2003 were as follows:

	Euros					
	12.31.02	**Additions**	**Amount Taken to Income**	**Retirements (Note 2-d)**	**Transfers to Short Term (Notes 14 and 15)**	**12.31.03**
Deferred revenues	16,246,338	5,465,477	(3,864,980)	(9,517,274)	(3,315,540)	5,014,021
Ministry of Science and Technology	35,954,484	23,791,372	—	—	(13,680,564)	46,065,292

The short-term accounts payable are recorded in Notes 14 and 15.

In joint projects, the project coordinator is responsible vis-à-vis the Ministry of Science and Technology for the performance of the project and collects the total amount of the aid from the Ministry. The Parent Company recorded €7,050 thousand under "Trade Receivables for Sales and Services" and €36,667 thousand under "Trade Accounts Payable" relating to the accounts receivable from and payable to third parties in connection with joint projects.

As of December 31, 2003, the maturities for the coming years were as follows:

	Thousands of Euros
2005	2,705
2006	4,538
2007	7,872
2008 and subsequent years	30,950
	46,065

13 PAYABLE TO CREDIT INSTITUTIONS

As of December 31, 2003, the consolidated companies had credit facilities at several financial institutions with an aggregate limit of €96,209 thousand. The amount drawn down at that date was not material.

14 TAXES RECEIVABLE AND PAYABLE

The breakdown of the "Taxes Receivable" and "Taxes Payable" captions as of December 31, 2003, is as follows:

	Euros			
	Assets		Liabilities	
	Long-Term Investments (Note 7)	Accounts Receivable	Current Liabilities	Long-Term Debt
Social security taxes	—	184,173	2,731,320	—
Regular taxes				
VAT	—	3,730,297	77,147	—
Other	—	539,749	215,781	—
Personal income tax withholdings	—	—	2,328,688	—
Deferred income tax	—	—	—	2,432,730
Prepaid income tax (Note 7)	1,730,017	74,836	—	—
Claims arising from unused tax credits and tax relief (Notes 4-m and 7)	4,978,000	1,022,000	—	—
Corporate income tax (Note 4-m)	—	167,525	1,670,843	—
Ministry of Science and Technology (Notes 5, 12 and 15)	—	—	13,939,819	—
	6,708,017	**5,718,580**	**20,963,598**	**2,432,730**

a) Tax matters

As of December 31, 2003, the companies composing the CAF Group basically had the last four years open for review by the tax inspection authorities for the main taxes applicable to them.

The Parent Company files corporate income tax returns with both the Spanish State tax authorities and the Guipúzcoa and Vizcaya provincial tax authorities on the basis of the volume of operations carried out in each area. However, since it is subject to Guipúzcoa tax regulations, a corporate income tax rate of 32.5% was applied in 2003.

The reconciliation of the Parent Company's income per books for 2003 to the taxable income for corporate income tax purposes is as follows:

	Euros
Income for the year per books (before taxes)	12,336,356
Permanent differences, net (Note 15)	1,291,770
Net increases and decreases due to timing differences and accelerated depreciation	(4,947,486)
Taxable income	**8,680,640**

The balance of prepaid income taxes (see Note 7) relates basically to 32.5% of the provision for the share-ownership scheme rights (see Note 10) and to timing differences due to provisions which were not tax-deductible in the year in which they were recorded (see Note 15). The balance of the deferred income taxes relates basically to 32.5% of the amount by which the depreciation taken for tax purposes exceeds that taken for accounting purposes as a result of the tax benefits relating to unrestricted and accelerated depreciation provided for by Guipúzcoa Regulations 6/1998, 7/1996 and 11/1993. Also, tax credits of €1.5 million and differences of approximately €1.2 million between the estimate and settlement of the 2002 corporate income tax were taken into account.

In addition to that indicated in Note 4-n, the Group generated tax assets that will be recorded if they can be taken in subsequent years in accordance with the limits and terms established by current legislation.

The varying interpretations which can be made of the tax regulations applicable to the CAF Group for the years open for review may give rise to certain contingent tax liabilities that cannot be objectively quantified. Also, certain tax benefits regulated by the Guipúzcoa provincial government were appealed against at various court instances. However, the Parent Company's directors consider that any tax liability which might arise in connection to this would not have a material effect on the accompanying consolidated financial statements (see Note 15).

15 OPERATING ALLOWANCES

The variations in 2003 in operating allowances (see Note 4-m) were as follows (in euros):

	12.31.02	Net Provision to Allowances (Note 4-m)	Transfers (Notes 10 and 12)	Amount Used	12.31.03
Warranties, assistance, penalties, etc.	8,384,829	2,864,865	—	—	11,362,749
Other allowances (Notes 4-m, 4-n, 7-c, 10, 12 and 14)	8,282,128	33,358	4,013,496 (*)	(4,555)	12,211,372
	16,666,957	**2,898,223**	**4,013,496**	**(4,555)**	**23,574,121**

(*) Relating basically to the Profit Program (Note 12).

16 REVENUES AND EXPENSES

a) Breakdown of net sales

	Thousands of Euros
By geographical market	
Spain	228,605
Exports	266,874
	495,479

	Thousands of Euros
By activity	
Railroad	482,512
Other	12,967
	495,479

(*) 63% in euros and the remainder basically in U.S. dollars.

b) Raw materials and other consumables used

	Euros
Purchases (*)	205,529,118
Work performed by other companies	9,720,946
Inventory variation	(20,177,377)
	195,072,687

(*) 76% in euros and the remainder basically in U.S. dollars.

c) Joint ventures

In carrying on its business activities, the Group has an ownership interest in a joint venture, whose accounts were integrated into the consolidated financial statements of the CAF Group based on the percentage of ownership, the effect of which is not material.

d) Other operating expenses

The fees for the audit of the financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. (both individual and consolidated) and Subsidiaries amounted to €273 thousand. Of this amount, the fees incurred for the annual audits of the companies reviewed by firms belonging to the Deloitte worldwide organization amounted to €220 thousand. Additionally, Deloitte billed the Group for €58 thousand relating to fees for other professional services.

e) Environmental information

The main investments made in systems, equipment and facilities designed for environmental protection and improvement and included in tangible fixed assets (see Note 5) amounted to €244 thousand in 2003.

In 2003 the Group obtained environmental subsidies amounting to €92 thousand.

As of December 31, 2003, the Group did not have any lawsuits 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 its environmental activities and, accordingly, the accompanying consolidated balance sheet does not include any provisions in connection to this.

17 AVERAGE LABOR FORCE AND PERSONNEL EXPENSES

The average headcount in 2003, by category, was as follows:

Professional Category	Average Number of Employees
Employees	1,065
Manual workers	2,407
Total (*)	**3,472**

(*) As of December 31, 2003, there were 3,505 permanent and temporary employees.

The detail of the personnel expenses is as follows:

	Euros
Wages and salaries	97,212,942
Social security costs	28,593,514
Other expenses (Notes 4-j, 4-k and 4-ñ)	7,370,758
	133,177,214

18 INFORMATION ON THE BOARD OF DIRECTORS

a) Directors' compensation and other benefits

In 2003 the Parent Company recorded approximately €611 thousand of compensation and attendance fees earned by its directors, whereas the directors of the subsidiaries did not earn any amount in connection to this. As of December 31, 2003, the Parent Company and the subsidiaries had not granted any advances, guarantees or loans to their current or former directors and, except as indicated in Note 4-k, the Group had no pension or life insurance commitments to them.

b) Detail of holdings in companies engaging in similar activities and the performance for their own account or for the account of others of similar activities by the directors, pursuant to Article 127 ter.4 of the Spanish Corporations Law.

Except for the holding owned by Gipuzkoa Donostia Kutxa (described in Note 7), which acted as a director of the related investee in 2003, and for the participation as directors at Group companies of certain CAF directors in the discharge of their duties (see Note 7), the Board members and their representatives did not own any equity interests in companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the corporate purpose of CAF, as stated in the declarations made by them and recorded in the minutes of the Board Meeting of March 30, 2004.

19 COLLATERAL AND OTHER GUARANTEES

As of December 31, 2003, €833,044 thousand of guarantees had been provided to the Group by financial institutions for customers to secure the performance of commercial transactions. Of this amount, €120,780 thousand relate to guarantees for the subsidies and refundable advances granted by the Ministry of Science and Technology and other public-sector institutions.

20 EVENTS SUBSEQUENT TO YEAR-END

As of December 31, 2003, the backlog, net of prebillings, amounted to approximately €1,590.002 million (see Note 8). As of February 29, 2004, it amounted to €2,406.515 million.

21 EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Group that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

Approval by the board of directors

JOSÉ Mª BAZTARRICA GARIJO	Chairman
JOSÉ IGNACIO BERROETA ECHEVARRIA	Director for Bilbao Bizkaia Kutxa
JOSÉ MIGUEL DE LA RICA BASAGOITI	Director
PASCUAL JOVER LAGUARDIA	Director for Vital Kutxa
ALEJANDRO LEGARDA ZARAGÜETA	Director
ANDRÉS ARIZCORRETA GARCÍA	Director
LUIS MIGUEL ARCONADA ECHARRI	Director
FERNANDO SPAGNOLO DE LA TORRE	Director for Gipuzkoa Donostia Kutxa
FERMÍN ARRESE ARRATIBEL	Director
ALFREDO BAYANO SARRATE	Secretary

Certificate issued by the Secretary attesting that, following the preparation of the consolidated financial statements and consolidated management report of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. and Subsidiaries composing the CAF Group (Consolidated) for the year ended December 31, 2003, by the Board of Directors at its meeting on March 30, 2004 (the consolidated financial statements for the year ended December 31, 2002, were duly formalized), the directors have signed this document, consisting of 38 sheets numbered sequentially from 1094 through 1131, all approved by the Secretary, who also signs them, and countersigned by the Chairman, and signed by each of the directors at the end of the document.

San Sebastian, March 30, 2004

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

Ordinary Shareholders' Meeting to be held at the Company's registered office in Beasain, Gipuzkoa, at 12.00 am on June 5 2004, at first call, and, if appropriate, at the same time and place the following day.

First. Review and approval, if appropriate, of the financial statements for the year ended 31 December 2003 and of Company management.

Second. Approval, if appropriate, of the proposed distribution of the income for the year.

Third. Re-election of Directors.

Fourth. Authorize the Company's Board of Directors for the derivative acquisition of treasury stock under the terms required by law, rendering null and void the authorization previously granted under a resolution of the General Meeting held on 7 June 2003.

Fifth. Examination and approval, if appropiate, of the Regulations of the Company's Shareholders' Meeting, and provision of information to the Shareholders on the Regulations of the Board of Directors.

Sixth. Re-election of auditors.

Seventh. Authorize the Board of Directors, with the scope necessary, to record in a public deed those of the foregoing resolutions which so require, with express powers to clarify, rectify or supplement said resolutions in accordance with the mercantile registrar's verbal or written requirements, and to perform any acts necessary to record these resolutions in the mercantile register.

Eighth. Approval of the minutes of the meeting.

Proposed Distribution of Income

Distribution of income after taxes of 10,404 thousands of Euros: 3,737 thousands of Euros for dividends, 6,667 thousands of Euros to voluntary reserves.

Board of Directors

JOSÉ Mª BAZTARRICA GARIJO	Chairman
JOSÉ IGNACIO BERROETA ECHEVARRIA	Director for Bilbao Bizkaia Kutxa
JOSÉ MIGUEL DE LA RICA BASAGOITI	Director
PASCUAL JOVER LAGUARDIA	Director for Vital Kutxa
ALEJANDRO LEGARDA ZARAGÜETA	Director
ANDRÉS ARIZCORRETA GARCÍA	Director
LUIS MIGUEL ARCONADA ECHARRI	Director
FERNANDO SPAGNOLO DE LA TORRE	Director for Gipuzkoa Donostia Kutxa
FERMÍN ARRESE ARRATIBEL	Director
ALFREDO BAYANO SARRATE	Secretary

At 30 March 2004 the Board of Directors held 50,54% of the capital stock.

Supplementary Information 1999-2003

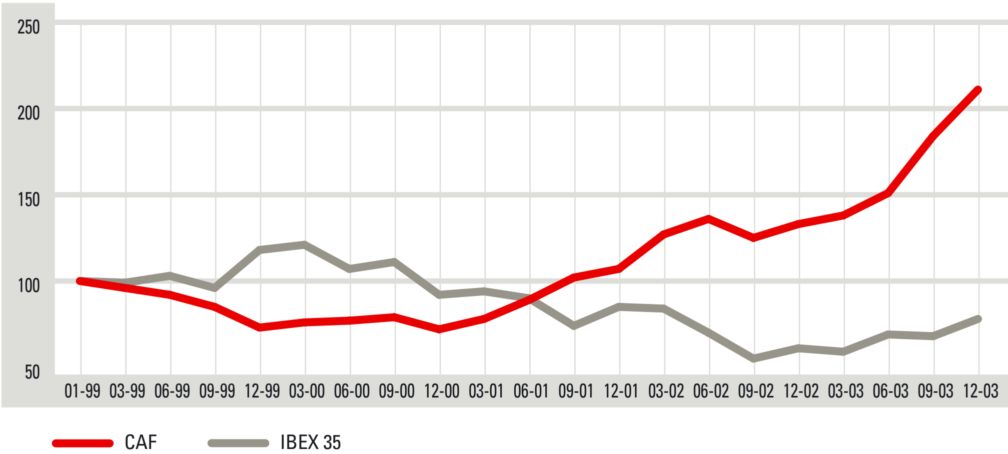
Stock market information
Balance Sheets
Statements of Income

Stock market information

As of December 31, 2003, 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.

TREND IN THE MARKET PRICE OF CAF'S SHARES

Base 100 = Jan-99



	2003*	2002*	2001*	2000	1999
Stock market capitalization					
Figures as of December 31	202,599,233	127,695,794	102,842,250	68,561,500	66,847,463
Per-share data					
Net earnings per share	3.39	2.87	2.85	2.73	2.61
Net income before taxes	4.20	3.67	3.61	3.42	3.31
Dividend per share	1.09	1.09	1.09	1.09	1.01
Per-share net book value	39.97	37.94	36.97	34.81	33.08
Stock market ratios					
PER	13.56	12.58	9.49	7.71	9.74
Average price/EBITDA	5.42	4.69	3.83	2.98	4.01
MV/BV ratio (average price/book value)	1.15	0.95	0.73	0.61	0.77
Dividend yield	2.37%	3.02%	4.05%	5.19%	3.98%
Pay-out	32.20%	37.98%	38.44%	40.00%	38.80%

* Consolidated 2001, 2002 and 2003.

Balance Sheets

as of December 31st 2003*, 2002*, 2001*, 2000 and 1999 (In Euros)

Assets

	2003	2002	2001	2000	1999
FIXED AND OTHER NONCURRENT ASSETS					
START UP EXPENSES	45,288	119,728	61,207	—	—
INTANGIBLE ASSETS	17,596,420	14,205,971	11,131,958	8,634,272	4,886,295
TANGIBLE FIXED ASSETS					
Land and structures	81,364,820	78,449,694	74,116,122	65,348,797	63,273,028
Technical installations and machinery	135,093,360	125,149,082	116,730,807	107,141,382	100,941,798
Other installations, tools and furniture	8,600,657	8,371,022	8,205,360	7,192,017	6,654,670
Advances and construction in progress	476,828	1,575	—	—	—
Other tangible fixed assets	13,969,511	12,948,327	10,948,517	9,658,156	8,380,008
Accumulated depreciation	(158,084,722)	(149,131,408)	(139,862,651)	(129,946,179)	(120,627,042)
	81,420,454	75,788,292	70,138,155	59,394,174	58,622,462
LONG-TERM FINANCIAL INVESTMENTS	18,779,808	11,046,968	17,669,197	23,425,054	23,536,860
TOTAL FIXED AND OTHER NONCURRENT ASSETS	117,841,970	101,160,959	99,000,517	91,453,500	87,045,617
DEFERRED CHARGES	—	9,959,326	7,339,782	—	—
CURRENT ASSETS					
INVENTORIES	29,452,853	64,218,845	78,209,717	57,075,613	113,584,316
ACCOUNTS RECEIVABLE					
Customer receivables for sales and services	320,383,994	261,424,930	170,874,989	118,018,235	104,747,070
Receivable from Group and associated companies	—	—	—	10,642,001	15,320,706
Receivable from associated companies	932,444	7,905,597	8,015,290	—	—
Sundry accounts receivable	2,773,568	3,091,648	3,119,541	2,506,990	1,571,611
Tax receivables	5,718,570	4,623,438	1,096,132	565,462	625,395
Provisions	(1,082,406)	(1,054,460)	(795,638)	—	(804,905)
	328,726,170	275,991,153	182,310,314	131,732,688	121,459,876
SHORT-TERM FINANCIAL INVESTMENTS	49,815,394	3,766,493	4,603,170	12,800,157	6,874,479
CASH	3,226,237	810,362	2,032,972	130,041	57,343
ACCRUAL ACCOUNTS	315,002	761,531	1,487,024	420,408	827,606
TOTAL CURRENT ASSETS	411,535,656	345,548,384	268,643,197	202,158,908	242,803,619
TOTAL ASSETS	**529,377,626**	**456,668,669**	**374,983,496**	**293,612,407**	**329,849,236**

* Years 2003, 2002 and 2001 consolidated Balance Sheet.

Shareholders' equity and liabilities

	2003	2002	2001	2000	1999
SHAREHOLDERS' EQUITY					
Capital stock	10,318,506	10,318.506	10,318,506	10,318,506	10,318,506
Additional paid-in capital	11,863,347	11,863,347	11,863,347	11,863,348	11,863,348
Revaluation reserve	28,034,368	28,034,368	28,034,368	28,034,366	28,034,366
Legal reserve	—	—	—	2,063,707	2,060,312
Voluntary reserves	—	—	—	57,662,598	52,190,010
Other reserves of the Controlling Company	75,695,511	70,796,603	65,350,408	—	—
Reserves at companies consolidated by global integration method and carried by the equity method	2,254,338	3,593,683	3,025,483	—	—
Translation differences	(2,750,817)	(4,367,890)	(1,599,407)	—	—
Income attributable to the Controlling Company	11,605,548	9,838,103	9,753,152	—	—
Income for the year	—	—	—	9,372,868	8,944,370
TOTAL SHAREHOLDERS' EQUITY	137,020,801	130,076,720	126,745,857	119,315,393	113,410,912
MINORITY INTERESTS	1,879,346	2,849,061	1,714,994		
DEFERRED REVENUES	5,014,021	16,246,338	12,618,369	482,697	1,183,315
PROVISIONS FOR CONTINGENCIES AND EXPENSES	830,969	1,323,572	2,282,121	939,184	554,512
LONG-TERM DEBT					
Other accounts payable	47,363,700	37,752,011	24,195,551	3,044,126	2,698,544
Accrued taxes payable	2,432,730	1,891,966	1,055,581	1,117,690	1,232,832
Uncalled capital payments payable	2,104,850	—	—	—	—
TOTAL LONG-TERM DEBT	51,901,280	39,643,977	25,251,132	4,161,816	3,931,376
CURRENT LIABILITIES					
Payable to credit entities	47,197	322,839	1,619,674	48,177	122,306
	47,197	322,839	1,619,674	48,177	122,306
Payable to associated companies	1,329,363	324,306	106,331	—	—
Payable to Group and associated companies	—	—	—	9,712,915	631,159
Trade accounts payable					
Advances received on orders	133,407,850	133,314,097	72,083,919	74,091,035	123,312,695
Payables for purcheses and services	140,998,531	95,176,233	98,139,994	59,490,372	61,215,817
	274,406,381	228,490,330	170,223,913	133,581,407	184,528,512
Other nontrade payables					
Other accounts payable	4,377,756	274,418	—	—	—
Accrued taxes payable	20,963,598	12,964,141	11,503,137	6,561,874	6,131,598
Compensation payable	7,989,858	7,440,751	6,240,844	5,325,490	4,979,764
	33,331,212	20,679,310	17,743,981	11,887,364	11,111,362
GUARANTEES AND DEPOSITS RECEIVED	—	—	—	—	—
OPERATING PROVISIONS	23,574,121	16,666,957	16,634,874	13,441,197	14,261,422
ACCRUAL ACCOUNTS	42,935	45,259	42,250	42,257	114,361
TOTAL CURRENT LIABILITIES	332,731,209	266,529,001	206,371,023	168,713,317	210,769,121
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**529,377,626**	**456,668,669**	**374,983,496**	**293,612,407**	**329,849,236**

Statements of Income

as of December 31st 2003*, 2002*, 2001*, 2000 and 1999 (In Euros)

Debit

	2003	2002	2001	2000	1999
EXPENSES					
Decrease in finished product and work-in-process inventories	82,767,840	14,429,237	2,893,831	42,173,993	14,096,733
Raw materials used and other consumables	195,072,687	195,035,331	209,744,906	181,002,416	148,933,270
Personnel expenses	133,177,214	118,095,336	104,227,928	92,647,302	95,800,662
Period depreciation and amortization	13,458,120	12,330,570	11,746,349	11,398,988	9,426,376
Variation in operating provisions	3,461,222	(2,653,410)	3,285,565	(45,683)	1,844,536
Other operating expenses					
Outside services	55,048,333	47,319,458	41,038,717	28,981,104	26,003,534
Taxes other than income tax	1,410,819	1,266,670	1,701,820	511,023	541,842
OPERATING INCOME	15,731,682	13,877,437	13,900,653	12,883,650	11,803,794
Financial and similar expenses	4,535,016	7,313,922	4,089,274	2,321,439	2,223,246
Variation in financial investment provisions	—	—	2,191,675	—	—
FINANCIAL INCOME	—	—	—	—	—
INCOME FROM ORDINARY ACTIVITIES	14,733,286	12,509,311	12,065,818	11,890,015	10,944,124
Variation in intangible asset, tangible fixed asset and portfolio provisions	393,411	—	(60,101)	—	—
Extraordinary expenses	9,632	510,080	2,614,138	875,584	426,719
EXTRAORDINARY INCOME	—	59,552	308,835	—	403,261
INCOME BEFORE TAXES	14,403,429	12,568,863	12,374,653	11,732,477	11,347,385
Corporate income tax	3,819,985	8,606,613	2,620,827	2,359,610	2,403,015
Consolidaated income for the year	11,645,754	9,962,250	9,753,826	9,372,868	8,944,370
Income attributed to minority interest	40,206	124,147	674		
INCOME FOR THE YEAR	**11,605,548**	**9,838,103**	**9,753,152**	**9,372,868**	**8,944,370**

* Years 2003, 2002 and 2001 consolidated Statement of Income.

Credit

	2003	2002	2001	2000	1999
REVENUES					
Net sales	495,479,207	392,488,865	386,845,107	368,186,428	306,662,550
Increase in finished products and work-in-process inventories	—	—	—	—	—
Capitalized expenses of in-house work on fixed assets	1,087,200	342,751	360,818	208,593	84,316
Other operating revenues					
Non-core and other current operating revenues	598,342	2,961,296	671,294	839,848	850,390
Subsidies	2,963,168	3,907,717	662,550	317,923	853,491
OPERATING LOSS	—	—	—	—	—
Revenues from shareholdings	954	4,676	204,074	147,248	88,349
Other interest and similar revenues	3,322,165	5,698,298	4,024,678	1,180,556	1,275,227
FINANCIAL LOSS	1,211,897	1,610,948	2,052,197	993,635	859,670
Share in the income of companies carried by the equity method	213,501	242,822	217,362	—	—
LOSS ON ORDINARY ACTIVITIES	—	—	—	—	—
Gains on tangible fixed assets disposals	68,306	77,877	47,101	17,429	34,342
Capital subsidies transferred to income for the year	—	420,903	373,793	700,618	795,638
Prior years' revenues and income	4,880	5,611	—	—	—
Extraordinary revenues	—	65,241	2,441,978	—	—
EXTRAORDINARY LOSS	329,857	—	—	157,537	—
LOSS BEFORE TAXES	—	—	—	—	—
Positive adjustments to income taxes (Note 4-n)	1,062,310	6,000,000	—	—	—
Consolidated loss for the year	—	—	—	—	—
Loss attributed to minority interests	—	—	—	—	—
LOSS FOR THE YEAR	—	—	—	—	—

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