Annual Report 2005

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

Contents

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AND DEPENDENT COMPANIES THAT MAKE UP THE CAF GROUP

Annual Report **2005**

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 Spanish, French and Basque and in CD-Rom form, 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 shareholder:

Once again, I have the honor of presenting the Management Report and the Financial Statements for 2005, which will be submitted for approval at the General Shareholders' Meeting.

First, I will discuss the year's main highlights and then I will briefly summarize the outlook for our Company in the short term.

2005 was another good year for CAF, with net profit of 18.1 million euros. Profit before tax rose 30% to 22.6 million euros, while EBITDA reached 40.1 million euros, up from 32.7 million in 2004. The Company generated cash flow of 39.2 million euros.

With these figures, the Board will propose the payment of a gross 1.60 euros per share dividend for approval at the General Shareholders' Meeting, 16.8% higher than last year's dividend.

Consolidated revenues advanced 17.8% to 680.8 million euros.

We remained committed to an intensive commercial policy, with the orderbook showing a balance at the end of the year of 2,697 million euros, 10.3% higher than at year-end 2004. Noteworthy was the growth in revenues from the export markets, which represented 44% of the total.

The main tenders and contracts won in Spain in 2005 were: 45 variable-gauge high-speed trains and 13 shuttle trains for Renfe, 10 additional trains for the Barcelona subway, 6 electric trains for the Mallorca subway and 3 streetcars for Vélez Málaga, which help cement our position in this new market segment, which enjoys huge growth potential. Particularly important in this market are the train maintenance contracts signed with Renfe, which boosted the orderbook by 62% from the year before.

The largest contracts won this year, however, were in the international market: to build 14 trains for the Algiers Subway Authority, 17 trains for the Algiers railway and 10 high-speed trains for Turkey. The latter contract reafirms CAF's commitment to technology, boding well for the future in both our domestic and export markets.

Another highlight was the tender won for the suburban public railway transport concession in Mexico for the new Cuautitlán-Buenavista line. For CAF, this means leading and undertaking a large-scale project to develop all the infrastructure and equipment required to start up the transport system and run the system for a period of 30 years once it is in place.

The Group also secured a number of new wheel set production contracts, 54% more than in 2004, mainly on export markets (70% of the total), including several major contracts in the USA.

The main deliveries during the year in Spain were the AVE shuttles, the Civia commuter train units, the 250 km/h variable-gauge trains and the regional diesel trains, all for Renfe, the trains for the Madrid and Barcelona subways and those for the Mallorca and Catalan regional railways.

Regarding to the international market, this year CAF delivered trains to the Mexican transport authority, the Rome subway, and the Northern Ireland and Republic of Ireland railways.

The orderbook at December 31, 2005 was by far the highest ever for CAF and leaves us in a comfortable position going forward, yet we are still fully aware of the need to continue making strides in key areas, such as technological innovation and productivity, in order to compete in our industry.

The market is growing and offering us opportunities to participate in more complex projects. These pose a constant challenge, yet also encourage us to hone our ability to provide solutions to new demands. In Spain, we would highlight the commitment of the recently enacted Strategic Infrastructure and Transport Plan (PEIT) to the railway system.

To conclude, I want to thank all staff at CAF for their work and dedication. They are undoubtedly the key to the Company's success and the positive results obtained in the last few years. With all our hard work, commitment and enthusiasm, I am sure we can meet the challenges that lie ahead.

Once again, I thank our shareholders for their trust in the Company, which spurs us to continue working with the same drive to achieve our goals.

Thank you very much.

José María Baztarrica Garijo
Chairman and CEO

CITY/ SUBURBANS

Subway Trains

- Algiers
- Barcelona
- Bilbao
- Brussels
- Hong Kong
- Madrid
- Mexico
- Palma (Mallorca)
- Rome
- São Paulo
- Seville
- Washington

Articulated Light Railway Vehicles

- Amsterdam (The Netherlands)
- Buenos Aires (Argentina)
- Monterrey (Mexico)
- Pittsburgh (USA)
- Sacramento (USA)
- Valencia (Spain)

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)
- SFM de Mallorca
- Caminhos de Ferro Portugueses
- Finnish Railways (VR Ltd)
- Heathrow Airport Express
- Hong-Kong Airport Express
- Irish Rail
- Northern Ireland Railways
- Northern Spirit

Streetcars

- Bilbao
- Lisbon
- Valencia
- Vélez-Málaga

MAIN LINES

High Speed Trains

- High Speed Trains and Variable Gauge Trains ATPRD/120
- High Speed Trains for the Madrid-Seville Line
- Shuttle Trains / RENFE
- High-speed trains for Turkey

Intercity Trains

- Tilting System ADR Trains
- Intercity, Push-Pull Service

Passenger Cars

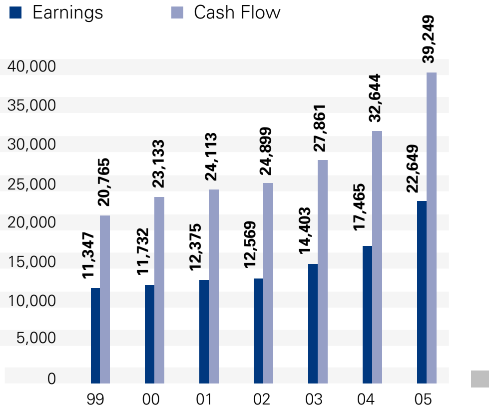
- Saloons and Luxury Lounge
- Sleeping Cars and Couchettes
- Restaurant and Cafeteria Cars

CAF, the latest technology backed up with 100-years experience.

Management Report of the Consolidated Group

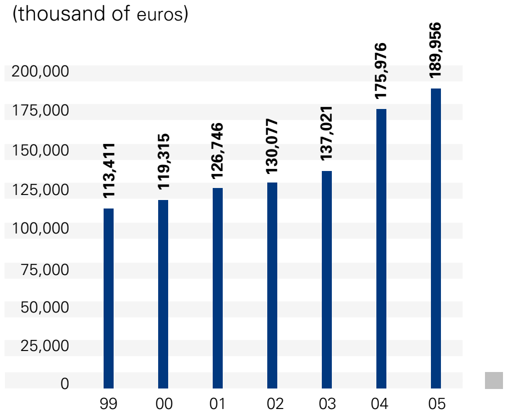
Earnings

Group's income and cash flow before taxes
(thousand of euros)



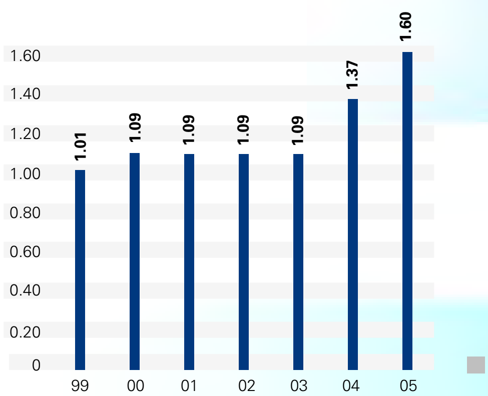
* Consolidated data 2002, 2003
2004 and 2005 consolidated data, IAS.

Group's shareholder's equity
(thousand of euros)



* Consolidated data 2002, 2003
2004 and 2005 consolidated data, IAS.

Evolution of dividends/shares
(in euros)



The CAF Group's financial results for 2005 are as follows:

Income after taxes amounted to €18,143 thousand, up approximately 29% on 2004.

- Profit after tax amounted to €18,143 thousand, up approximately 29% on 2004.
- The depreciation and amortization charge of €16,599 thousand, plus the profit for the year before tax, generated a cash flow of €39,249 thousand.
- Net sales totaled €680,798 thousand, up 18% on 2004.
- The order book showed a balance of €2,697,479 thousand as of December 31, 2005. This is higher than the 2004 year-end figure and will enable the Company to continue its normal business activities.
- The proposed distribution of €5,485 thousand of the Parent Company's income after taxes to pay dividends and €8,581 thousand to voluntary reserves, is in line with the prior year's policy, the aim of which is to increase its net asset value.
- Assuming the proposed allocation of income to voluntary reserves is approved, the Parent Company's shareholders' equity will rise to €149,138 thousand.
- Lastly, as required by law, CAF declares that neither the Parent Company nor its subsidiaries purchased or held treasury shares in 2005.

Commercial Activity

In 2005 commercial activities remained very robust in both the domestic and export markets, with the company obtaining contracts for €933 million. At 2005 year-end the Group's order book showed a balance of €2,697 million.

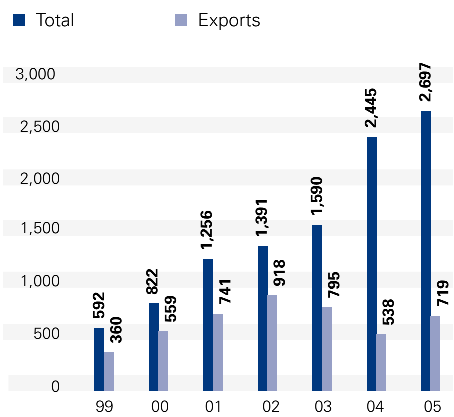
This order book balance is once again the highest ever reached by CAF. Exports accounted for 27% of the total, attesting to a decline in the trend of previous years, which had seen a pronounced increase in the domestic market's weighting, and reflecting the nature of major contracts won in 2004.

The Group's backlog at 2005 year-end stood at €2,697 million... Awarded the contract to build 45 high-speed trains for RENFE...... 10 high-speed trains for Turkey.

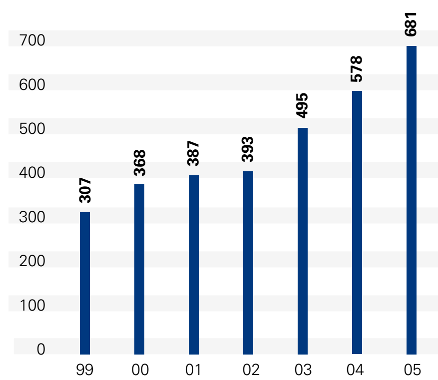
Contracts awarded to the Group in 2005 by RENFE include contracts to supply 45 250 km/h variable-gauge high-speed trains, 16 trains for the Long Distance business unit, 29 trains for Regional Services, and 30 shuttle trains (of which production of 13 has currently been approved).

The Group also secured a contract with the Barcelona subway authority to supply 10 new trains for line 1 and 39 trains for line 5.

Order Book
(million of euros)



Total Sales
(million of euros)



* Consolidated data 2002, 2003, 2004 and 2005

In addition, 6 trains have been ordered for the new Palma de Mallorca subway, in furtherance of our collaboration with this key client, and 3 streetcars for Vélez Málaga under a contract that will help cement our position in this new market segment which offers very promising future opportunities, with plans to introduce streetcar systems already at an advanced stage in many cities.

The largest contracts won this year, however, were overseas and included, in addition to two contracts awarded in Algeria (17 diesel trains and 14 trains for the Algiers Subway Authority), a contract to supply 10 six-car high-speed trains to Turkey that will mark Spain's first export of high-speed trains and secure CAF's position in a segment offering considerable future opportunities both at home and abroad.

Growth in maintenance contracts also remained robust, with the year-end order book showing an increase on 2004 mainly as a result of the 14-year contracts concluded with RENFE, principally for its high-speed, variable-gauge, self-propelled trains (ATPRDs).

The Group also secured a number of new wheel set production contracts, mainly on exports markets, including the major contracts in the USA, with Metronorth and General Motors.

Looking to the future, the investments planned under RENFE's Strategic Infrastructure and Transport Plan (PEIT) have now begun, and resulting from this, and our strong technological and industrial position, in early 2006 we were awarded the contract to build 40 new CIVIA III commuter trains. In the coming months, we hope to secure further new contracts in the tenders due to be held by RENFE in 2006.

Industrial Activity

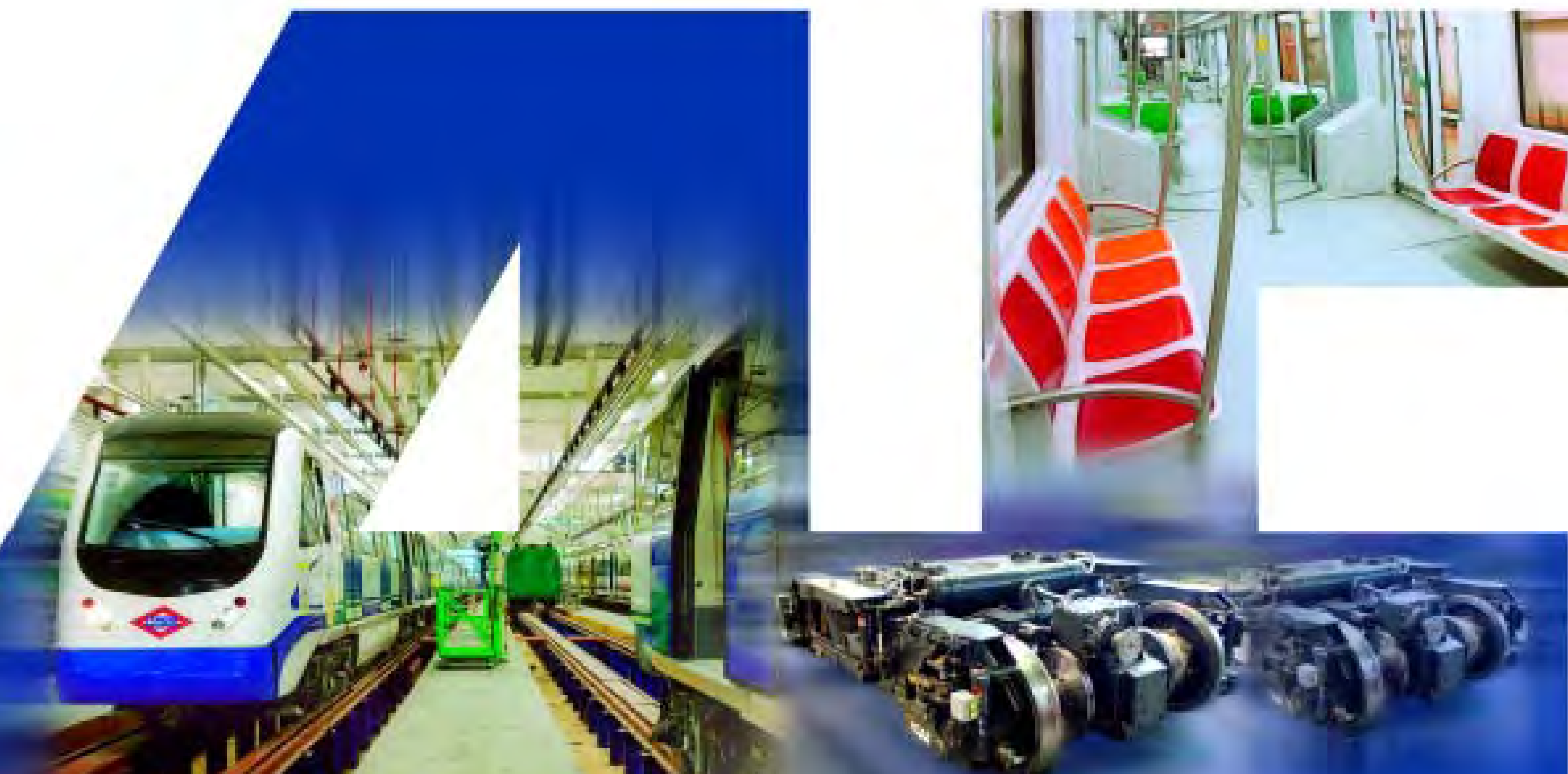
In 2005 we delivered the last 9 ADR diesel trains and 6 S/104 shuttle trains to RENFE, 10 trains for Mallorca, the final 8 S/2000 units for the Madrid subway and the last 13 diesel units for Northern Ireland, thereby completing the vehicle delivery schedules agreed for these projects.

2005 also saw delivery of 8 refurbished units for Pittsburgh, 9 variable-gauge Brava, self-propelled trains for RENFE, 11 trains for the Mexico subway, 35 passenger cars for the Republic of Ireland, the first streetcar for Vélez-Málaga, 7 diesel trains for the Republic of Ireland (second contract), the first "S" S/8000 car for the Madrid subway, 18 trains for the Rome subway, 10 trains for line 5 of the Barcelona subway and 2 trains for Ferrocarrils de la Generalitat de Catalunya (Catalan Regional Railways, or FGC).

Variable-gauge high-speed trains, shuttle, Intercity, suburban and subway trains, articulated units, street cars…

As regards progress on other key projects currently in varying stages of development, the first CIVIA II commuter train units for RENFE, the first train for the Brussels subway and the first series 3,000 single-voltage trains for the Madrid subway are all now at an advanced stage of production.

As regards other more-recently awarded contracts, engineering work has started on the 6 units for the Palma (Mallorca) subway, the 17 diesel trains for Algeria, the 20 commuter trains for Mexico, the 10 trains for line 1 of the Barcelona subway, and the 29 new self-propelled regional trains for RENFE. Work has also started on construction of the 10 high-speed trains for Turkey.



The principal manufacturing projects underway 2005, expressed in number of vehicles, were as follows:

VEHICLES

Passenger cars (GC+FC+CC+5SC+SCEND) for Republic of Ireland … …	35
"S" S/8000 car for the Madrid subway … … … … … … … … … … … …	1
Refurbished units (A+B) for the LRV Pittsburg (USA) … … … … … … …	16
S/2000 unit (M+R) for the Madrid subway … … … … … … … … … … …	16
Unit (M+M) for Mallorca subway … … … … … … … … … … … … … …	20
ADR diesel train (M1+R+M2) for RENFE … … … … … … … … … … …	27
Brava train (MCT + MIT + MIP + MCP), ATPRD for RENFE … … … … …	36
Train (M1+M2+4N+2R+PR) for the Mexico subway … … … … … … …	99
Train for Seville light subway and Vélez-Malaga (A+B+C+D+E) … … … …	5
Diesel train (DM1+MDT+MT+DM2) for the Republic of Ireland … … …	28
Diesel train (DM1+MDT+MT+DM2) for Northern Ireland Railways (NIR) …	39
S/104 shuttle trains (CPM + CMIP + CMI + CMT) for RENFE … … … …	24
Train (2RCP+2M1+2M2) for the Rome subway … … … … … … … … …	108
S/5000 train (MA1+MB1+R+MB2+MA2) for the Barcelona subway … …	50
S/213 train (M1+R+M2) for Ferrocarrils de la Generalitat de Catalunya …	6
TOTAL …	510

BOGIES

With welded steel rack (power car + trailer) … … … … … … … … … …	888

COMPONENTS

Mounted axles …	3,912
Axle shafts (total) … … … … … … … … … … … … … … … … … … …	7,128
Wheels (total) …	44,691
Brackets …	1,200
Grease boxes …	557
Reduction gear …	279
Pneumatic suspension units … … … … … … … … … … … … … … …	15
Brake blocks …	40
Scharfenberg couplers … … … … … … … … … … … … … … … … …	1,137

Other supplementary materials manufactured were as follows:

Steel …	45,300 to

The repairs carried out included:

S/3500 electric trains for Euskotren … … … … … … … … … … … … …	3
Cars for Mallorca … … … … … … … … … … … … … … … … … … …	4
Bogies for Bilbao subway … … … … … … … … … … … … … … … …	30

Human and Environmental Resources

The variations in the consolidated Group's workforce in 2005 were as follows:

	Permanent	Total	Annual Average Headcount
31-12-04	2,853	3,855	3,846
31-12-05	3,235	3,864	3,838

The Group continues to develop its technological capacities through its network of investees and, as a result, its internal headcount has become much more stable.

There has been a significant increase in workforce stability. The audits confirmed the award of the Environmental Management Certificate.

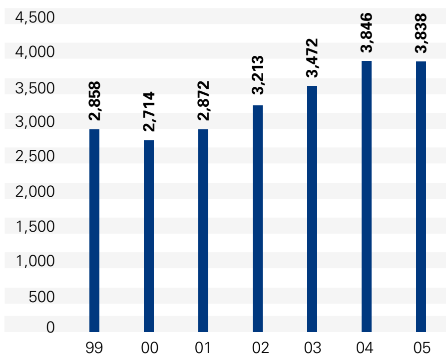
Key initiatives launched under the annual workplace risk prevention plan in 2005 included training events aimed at making accident prevention central to the organizational structure and a drive to encourage greater participation in prevention activities in general.

CAF's ISO 14001 Environmental Management Certificate was renewed in the course of the year.

The main focuses of training initiatives carried out in the year, as envisaged under the Training Plan, were welding certification and CAD/CAM computer design, as well as career development monitoring and evaluation activities for managers and technical staff.

In line with commitments assumed under the Kyoto Protocol, an audit has confirmed that the Group's greenhouse gas emission levels were lower than the emission rights assigned to it for the year.

Employees
(number of persons)



* Consolidated data 2002, 2003, 2004 and 2005

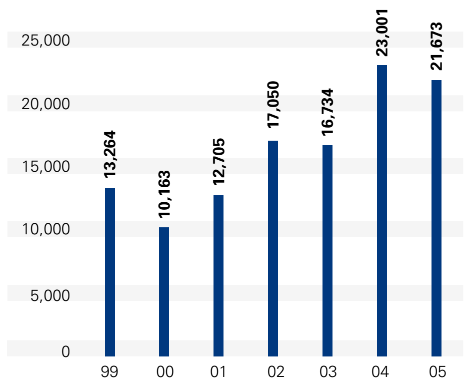
Capital Expenditure in 2005

Investments made by the Group in fixed assets for its plants in the course of 2005 amounted to €21,673 thousand (excluding exchange rate effects), in line with the investment drive of prior years. Most of this expenditure was geared towards increasing productivity and workplace safety and improving environmental conditions.

The key investments made were as follows:

- R6 and R7 robotized arc welding systems.
- Bogie structure, assembly and interchanger production lines.
- Construction of a traction equipment assembly unit.
- Upgrade and extension of CAD/CAM workstations.
- Continuing construction of new rail vehicle laboratory and testing centre.
- New central logistics centre in Beasain.

Investments
(thousand of euros)



* Consolidated data 2002, 2003, 2004 and 2005

Technological Development

The Group once again made considerable investments in technological development in the course of the year.

Basic research and technology

The basic new equipment research and development activities that round out CAF's vehicles business and guarantee a persistently high degree of innovation continued in 2005.

High level of innovation. Major involvement in European railroad R&D projects. Development and manufacture of traction equipment.

In particular, we were involved in a number of European R&D projects, including the Euromain and Integrail projects.

A number of the developments and joint projects we have been involved in over recent years have already born fruit; in 2005, for example, the Group manufactured its first traction equipment and tested it in its new laboratory. This equipment has now been mounted on a Civia train for immediate line tests and subsequent certification.

The Group's technology investees, with CAF I+D at the fore, all performed well in 2005 and continue to expand their activities. Current investees include Traintic, Lander, Asirys and, lastly, Dano-Rail, a recently, created venture in which CAF has a 20% interest.

CAF also continued to work with technology centers and universities, in line with the policy of recent years, and continues to receive R&D support to help fund preparatory work for pan-European projects from both local and national government authorities.

Finally, the new electrical laboratory that forms part of the new rail vehicle testing centre —construction of which is progressing as planned— is now up and running.

New developments

2005 saw work continuing on projects begun in past years, including the following:

- Trains for the Republic of Ireland’s intercity service, including factory and line tests.
- High-speed variable gauge self-propelled trains with line tests for certification.
- Trains for the Barcelona subway.
- Trains for the Seville subway.

Construction projects commenced in prior years on which work continued in 2005 included the following:

- Trains for the Brussels subway.
- Series 3000 trains for the Madrid subway.
- High-speed, variable-gauge, self-propelled trains for the RENFE regional services unit.

Also in 2005, work began on the following projects:

- Trains for the Palma de Mallorca subway.
- Trains for the Mexico suburban rail system.
- Diesel trains for Algeria.
- Trains for the Algiers subway.
- High-speed trains for Turkey.

Risk Management Policy

In carrying out its business activities, the CAF Group is exposed to various financial risks, including market risk (exchange rate risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Written policies have been established both for global risk and other specific areas that could be affected.

The financial risk management policy adopted by the Group is centered on managing the uncertainties of the financial markets and minimizing their potential adverse effects on financial profitability.

The Group's Financial Department is responsible for identifying, assessing and hedging against financial risks and for drawing up written policies for the management of global risk and also for specific areas of risk management, including exchange rate risk, interest rate risk, liquidity risk, the use of derivative and non-derivative financial instruments, and the investment of surplus cash.

a) Market risk

The various companies making up the CAF Group are active internationally and therefore exposed to exchange rate risk on their foreign currency transactions (principally US dollar and euro). Exchange rate risk may arise on future commercial transactions, balance sheet assets and liabilities, and net investments in foreign operations.

Group companies use forward contracts to manage exchange rate risk associated with future commercial transactions and balance sheet assets and liabilities, which arises when the transactions or assets and liabilities in question are denominated in a currency other than the Group's functional currency of operation (i.e. the euro).

The Group's standard practice is to hedge against the market risk associated with contracts denominated in currencies other than its functional currency with the aim of preventing currency fluctuations from impacting on the various contracts concluded and thereby ensuring that the Group's financial statements provide a true and fair view of its industrial and service activities.

b) Credit risk

For the most part, the balance of trade and other receivables and work in progress corresponds to contracts with clients located in foreign countries, which are generally remunerated on the basis of project progress.

The Group's standard practice is to hedge against the termination or default risk associated with contracts concluded with clients in non-OECD countries using export insurance policies, pursuant to the OECD Council Guidelines on policies of this type.

In addition, the Group has obtained firm financial commitments from various financial institutions for the acquisition, without recourse, of its receivables. Under the terms of these agreements, the Group pays a fee to the financial institutions involved in return for assuming its credit risk, plus interest and any financial charges.

c) Liquidity risk

Prudent liquidity risk management entails maintaining cash assets, marketable securities and credit facilities sufficient to cover the timely payment of all commitments.

The CAF Group manages liquidity risk by always:

- Seeking the highest possible level of equity financing on all contracts concluded.
- Maintaining undrawn credit facilities.

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

The Group exposes itself to interest rate risk when using external sources of financing.

The CAF Group's general policy is to settle all amounts owed to third parties in due time using short-term external financing bearing interest at rates linked to variable market indices (normally the Euribor). This policy substantially reduces the interest rate risk to which it is exposed.

Outlook

The short-term outlook for CAF may be summarized as follows:

- Gradual increase in production capacity to cater for an expanding order book.

- Industrial, technological and organizational improvements on the back of fixed assets investments.

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

- Continued presence in international railroad material markets.

- Harnessing the expansion potential in railroad service business lines.

Subsequent Events

On January 10, 2006, RENFE awarded CAF a contract to supply 40 commuter train units worth approximately €200 million.

At February 28, 2006, the Group had a firm order book of €2,730,850 thousand.

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

Letter from the Auditor

Deloitte.

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España

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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 and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union (see Notes 2 and 28). 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. (the Parent Company) and subsidiaries composing the CAF Group (see Notes 1 and 2-f) which consist of the consolidated balance sheet as of December 31, 2005, and the related consolidated statement of income, consolidated cash flow statement, consolidated statement of changes in equity 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 in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.

2. The accompanying consolidated financial statements for 2005 are the first that the Group has prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (EU-IFRS), which require, in general, that financial statements present comparative information. In this regard, as required by corporate and commercial law, for comparison purposes the Parent Company's Directors present, in addition to the consolidated figures for 2005 for each item in the balance sheet, statement of income, cash flow statement, statement of changes in equity and notes to the financial statements, the figures for 2004, which were obtained by applying the EU-IFRS in force as of December 31, 2005. Accordingly, the figures for 2004 differ from those contained in the approved consolidated financial statements for 2004, which were prepared in accordance with the accounting principles and standards in force in that year. The differences arising from the application of EU-IFRS to the consolidated equity at January 1 and December 31, 2004, and to the Group's consolidated profit for 2004 are detailed in Note 3 to the accompanying consolidated financial statements. Our opinion refers only to the 2005 consolidated financial statements. Our auditors' report dated March 30, 2005, on the 2004 consolidated financial statements of the CAF Group, prepared in accordance with the accounting principles and standards in force in that year, contained an unqualified opinion.

3. As indicated in Note 2-e, the Group has applied the exception provided for in IFRS 1, as adopted by the European Union, which permits the application of International Accounting Standards 32 and 39 in relation to financial instruments from January 1, 2005 onwards, without requiring that the comparative figures for 2004 be adapted. Therefore, the financial statements for the two years should be compared taking into account the content of Note 2-e.

4. In our opinion, the consolidated financial statements for 2005 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 at 31 December 2005, and of the consolidated results of their operations, the changes in the consolidated equity and their consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards, as adopted by the European Union which, except as indicated in paragraph 3 above, were applied on a basis consistent with that used in the preparation of the financial statements for the preceding year, which were included in the consolidated financial statements for 2005 for comparison purposes.

5. The accompanying consolidated management report for 2005 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 2005. 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 accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. and subsidiaries.

DELOITTE
Registered in ROAC under no.S0692

Joseba Ijalba Ruiz
March 29, 2006

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

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

Consolidated balance sheets

at December 31, 2005 and 2004 (Notes 1 to 7) (Euros)

Assets

	12-31-05	12-31-04 (*)
Non-current assets:		
Other intangible assets, net (Note 8)	12,632,530	14,119,310
Property, plant, and equipment, net (Note 9)	146,408,693	138,020,380
Investments in associates (Note 10)	728,812	847,250
Non-current financial assets (Note 10)	27,704,769	19,439,557
Deferred tax assets (Notes 12 and 19)	5,035,632	1,111,286
Total non-current assets	192,510,436	173,537,783
Current assets:		
Inventories (Note 12)	67,389,443	15,789,726
Trade and other receivables (Note 13)	324,952,312	432,941,127
Receivable from associated companies (Notes 11 and 13)	3,433	17,896
Other current financial assets	1,575,711	603,464
Derivative financial instruments (Note 18)	5,672,599	—
Short-term investments (Note 14)	33,551,989	23,679,429
Tax receivables (Note 20)	12,448,881	9,464,363
Cash and cash equivalents	1,903,693	1,434,482
Other current assets	580,316	456,633
Total current assets	448,078,377	484,387,120
Total Assets	640,588,813	657,924,903

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

Equity and Liabilities

	12-31-05	12-31-04 (*)
Equity:		
Attributable to the Parent Company (Note 15)		
Capital stock	10,318,506	10,318,506
Additional paid - in capital	11,863,347	11,863,347
Revaluation reserve	56,551,093	56,551,093
Reserves at fully consolidated companies and companies accounted for by the equity method	92,901,039	83,264,234
Translation differences	1,163,690	(59,288)
Equity adjustments due to changes in fair value	(984,460)	—
Net profit for the year	18,143,386	14,038,123
Equity attributable to the Parent Company	**189,956,601**	**175,976,015**
Minority interests	**2,658,625**	**1,958,626**
Total equity	**192,615,226**	**177,934,641**
Non-current liabilities:		
Long-term provisions (Note 4-o)	**1,362,416**	**1,225,961**
Payable to credit institutions (Note 17)	**37,307**	**82,035**
Derivative financial instruments (Note 18)	**221,052**	**—**
Other long-term liabilities (Note 16)	**62,185,062**	**66,551,837**
Deferred tax liabilities (Note 19)	**18,365,236**	**16,290,365**
Other non-current liabilities (Note 10)	**1,065,000**	**103,337**
Total non-current liabilities	**83,236,073**	**84,253,535**
Current liabilities:		
Payable to credit institutions (Note 17)	**184,805**	**148,653**
Derivative financial instruments (Note 18)	**70,943**	**—**
Other current financial liabilities	**16,031,736**	**11,326,433**
Payable to associated companies (Note 11)	**595,993**	**2,832,918**
Trade and other payables		
Advances received on orders	115,849,837	172,906,288
Trade payables purchases and services	153,203,784	154,280,807
	269,053,621	**327,187,095**
Short-term provisions (Note 21)	**39,520,484**	**23,956,498**
Other payables		
Taxes payable (Note 20)	28,549,001	20,789,189
Other current liabilities	10,730,931	9,495,941
	39,279,932	**30,285,130**
Total current liabilities	**364,737,514**	**395,736,727**
Equity and liabilities	**640,588,813**	**657,924,903**

(*) Unaudited figures, presented for comparison purposes only.

The accompanying Notes 1 to 28 are an integral part of the consolidated balance sheet as of December 31, 2005.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

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

Consolidated income statement

for the years ended December 31, 2005 and 2004
(Notes 1 to 7) (Euros)

	(Debit) Credit 2005	(Debit) Credit 2004 (*)
Continuing operations:		
Net sales (Note 7)	680,798,488	578,012,441
+/– Change in finished goods and work-in-progress inventories (Note 12)	268,750	(52,454,882)
Raw materials and other consumables used (Note 22)	(396,262,259)	(284,154,227)
Other operating revenues	886,785	751,638
Personnel expenses (Note 23)	(165,880,761)	(152,155,231)
Other operating expenses	(79,908,049)	(57,283,347)
Depreciation and amortization expenses (Notes 8 and 9)	(16,599,384)	(15,178,859)
Operating income	**23,303,570**	**17,537,533**
Financial revenues (Note 14)	4,883,652	2,989,354
Financial expenses (Note 17)	(5,768,806)	(3,063,815)
Financial loss	**(885,154)**	**(74,461)**
Share in the income of companies accounted for by the equity method (Note 10)	204,558	216,954
Other gains and losses (net) (Note 4-b)	26,547	(215,300)
Income before tax	**22,649,521**	**17,464,726**
Corporate income tax (Notes 4-m, 19 and 20)	(4,469,307)	(3,363,781)
Income from continuing operations	**18,180,214**	**14,100,945**
Income for the year	**18,180,214**	**14,100,945**
Attributable to:		
Shareholders of the Parent Company	18,143,386	14,038,123
Minority interests	36,828	62,822
Earning per share (in euros) (Note 4-s)		
Basic	5.29	4.10
Diluted	5.29	4.10

(*) Unaudited figures, presented for comparison purposes only

The accompanying Notes 1 to 28 are an integral part of the consolidated income statement for the year 2005.

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

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

Consolidated statement of changes in equity

for the years ended December 31, 2005 and 2004

(Note 15) (Euros)

	Capital stock	Additional paid-in capital	Revaluation reserve	Legal reserve	Other voluntary reserves	Reserves in consolidated companies	Equity adjustments due to chages in fair value	Translation differences	Net profit for the year	Minority interests	Total equity
Balances at January 1, 2004 (*) (Note 3)	**10,318,506**	**11,863,347**	**56,551,093**	**2,063,704**	**73,631,807**	**(527,048)**	**–**	**–**	**11,605,548**	**1,879,346**	**167,386,303**
Distribution of profit for the year											
To reserves	—	—	—	—	6,667,823	1,201,122	—	—	(7,868,945)	—	—
To dividends	—	—	—	—	—	—	—	—	(3,736,603)	—	(3,736,603)
Translation differences	—	—	—	—	—	—	—	(59,288)	—	—	(59,288)
Change in hedging reserves	—	—	—	—	—	—	—	—	—	—	—
Start-up expenses	—	—	—	—	—	—	—	—	—	—	—
Net profit for 2004	—	—	—	—	—	—	—	—	14,038,123	—	14,038,123
Profit attributable to minority interests	—	—	—	—	—	—	—	—	—	62,822	62,822
Inclusions in the Consolidated Group	—	—	—	—	—	—	—	—	—	16,458	16,458
Other	—	—	—	—	—	226,826	—	—	—	—	226,826
Balances at December 31, 2004 (*)	**10,318,506**	**11,863,347**	**56,551,093**	**2,063,704**	**80,299,630**	**900,900**	**–**	**(59,288)**	**14,038,123**	**1,958,626**	**177,934,641**
Distribution of profit for the year											
To reserves	—	—	—	—	7,977,487	1,364,174	—	—	(9,341,661)	—	—
To dividens	—	—	—	—	—	—	—	—	(4,696,462)	—	(4,696,462)
Translation differences	—	—	—	—	—	—	—	1,222,978	—	—	1,222,978
Change in hedging reserves	—	—	—	—	191,074	104,039	(984,460)	—	—	—	(689,347)
Net profit for 2005	—	—	—	—	—	—	—	—	18,143,386	—	18,143,386
Profit attributable to minority interests	—	—	—	—	—	—	—	—	—	36,828	36,828
Inclusions in the Consolidated Group	—	—	—	—	—	—	—	—	—	663,171	663,171
Other	—	—	—	—	—	31	—	—	—	—	31
Balances at December 31, 2005	**10,318,506**	**11,863,347**	**56,551,093**	**2,063,704**	**88,468,191**	**2,369,144**	**(984,460)**	**1,163,690**	**18,143,386**	**2,658,625**	**192,615,226**

(*) Unaudited figures, presented for comparison purposes only.

The accompanying Notes 1 to 28 are an integral part of the consolidated statement of changes in equity.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union (see Notes 2 and 28). In the event of a discrepancy, the Spanish-language version prevails.

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

Consolidated cash flow statements

for the years ended December 31, 2005 and 2004
(Euros)

	2005	2004 (*)
Cash flows from operating activities:		
Profit before tax	22,649,521	17,464,726
Adjustments for-		
Depreciation and amortization (Notes 8 and 9)	16,599,384	15,178,859
Amortization of written-off expenses	(392,944)	(140,132)
Corporate income tax (Notes 4-m, 19 and 20)	(4,469,307)	(3,363,781)
Long-term provisions (Note 4-o)	695,194	1,228,752
Change in provisions for non-current financial assets (Note 10)	5,215,432	745,889
Net additions to short-term provisions (Note 21)	15,722,359	2,586,400
Gains on disposal of non-current assets (Notes 4-b, 8 and 9)	(34,120)	(102,671)
Losses on disposal of non-current assets (Notes 4-b, 8 and 9)	18,326	316,499
Cash flows from operating activities	**56,003,845**	**33,914,541**
Adjustments to fair value of long-term derivative financial instruments (Note 18)	221,052	—
Deferred tax liabilities (Note 19)	2,593,904	1,905,478
Application of long-term provisions (Note 4-o)	(558,739)	(833,760)
Application of short-term provisions (Note 21)	(158,373)	(2,204,023)
Application of deferred tax liabilities (Note 19)	(547,907)	(1,778,160)
Change in working capital:		
Trade receivables and other current assets (Notes 4-d, 6 and 8)	59,723,378	(159,083,017)
Increase in inventories	(51,599,717)	8,649,106
Decrease (increase) in trade payables	(46,563,199)	62,623,141
Net cash flows from operating activities (I)	**19,114,244**	**(56,806,694)**
Cash flows from investing activities:		
Acquisition of intangible assets (Note 8)	(3,971,539)	(6,769,592)
Acquisition of non-current financial assets (Note 10)	(21,182,712)	(6,190,775)
Capital payments receivable (Note 10)	1,065,000	103,337
Transfer of other intangible assets to inventories (Note 8)	1,176,563	5,967,207
Transfers of non-current financial assets to current assets (Note 10)	583,670	330,302
Acquisition of property, plant and equipment (Note 9)	(21,036,201)	(25,482,545)
Capital payments made (Note 10)	(103,337)	(2,104,850)
Gains on disposal of property, plant and equipment and intangible assets (Notes 4-b, 8 and 9)	360,844	156,421
Investments in associates (Note 10)	118,438	(407,472)
Gains on disposal of non-current financial assets (Note 10)	5,315,826	2,285,040
Net change in deferred tax assets (Note 19)	(2,681,310)	708,731
Net cash flows from investing activities (II)	**(40,354,758)**	**(31,404,196)**
Cash flows from financing activities:		
Equity adjustments due to changes in fair value (Note 15)	(689,347)	—
Minority and other interests (Note 15)	663,202	243,284
Cash flows from other long-term liabilities (Note 16)	2,020,322	21,713,974
Long-term bank loans	—	82,035
Transfer of financial debt to short term	(44,728)	—
Trade financing (Notes 4-d, 6 and 13)	28,654,293	70,701,390
Transfers, repayments and cancellations of long-term financial liabilities (Note 16)	(6,358,223)	(2,525,657)
Net translation differences	2,160,668	(59,288)
Dividends paid by the Parent Company (Note 15)	(4,696,462)	(3,736,603)
Net cash flows from financing activities (III)	**21,709,725**	**86,419,135**
Net increase in cash and cash equivalents (I+II+III)	**469,211**	**(1,791,755)**
Cash and cash equivalents at the start of the period	1,434,482	3,226,237
Cash and cash equivalents at the end of the period	**1,903,693**	**1,434,482**

(*) Unaudited figures, presented for comparison purposes only

The accompanying Notes 1 to 28 are an integral part of the consolidated cash flow statement.

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

Consolidated Annual Report

for the year ended December 31, 2005

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

Consolidated Annual Report

for the year ended December 31, 2005

1 Description of the Parent Company

Construcciones y Auxiliar de Ferrocarriles, S.A. (hereinafter "CAF" or the "Parent Company") was incorporated for an indefinite period 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 share capital of other companies (see Note 2-f).

2 Basis of preparation of the consolidated financial statements

a) Basis of preparation

The CAF Group's consolidated financial statements for 2005 have been prepared by its directors:

- For the first time, in accordance with International Financial Reporting Standards (hereinafter IFRS), as adopted by the European Union, pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and the Council incorporating the International Accounting Standards (IAS), the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). Note 4 includes a summary of the main accounting principles and valuation methods applied in preparing the consolidated financial statements of the CAF Group for 2005.

- Applying all obligatory accounting principles, standards and measurement criteria that have a material impact on the consolidated financial statements, and all alternatives legally permitted in this respect and detailed in paragraph b of this Note.

- To give a true and fair view of the consolidated net assets and financial position of the CAF Group at December 31, 2005, and of the consolidated results of its operations, the changes in its equity and the cash flows generated by the Group in the year then ended.

- Drawing on the accounting records of the Parent Company and other companies making up the consolidated Group. However, since the accounting principles and measurement criteria used to prepare the Group's 2005 consolidated financial statements (IFRS) may differ from those applied by Group entities (local accounting principles), the adjustments and reclassifications necessary to standardize the principles and criteria used and to ensure compliance with IFRS were made on consolidation.

The consolidated financial statements of the CAF Group for 2004, which were approved by the Shareholders' Meeting on June 4, 2005 (see Note 2-b), were prepared in accordance with Spanish accounting principles and, accordingly, do not coincide with the amounts for FY2004 included in these consolidated financial statements, which have been prepared in accordance with IFRS (see Notes 2-b and 3). The Group's 2005 consolidated financial statements and the 2005 individual financial statements for the entities making up the Consolidated Group are subject to approval at the respective Shareholders' Meetings. The Board of Directors of CAF believes that the financial statements will be approved without modification.

b) Adoption of International Financial Reporting Standards (IFRS)

The Group's consolidated financial statements for the year ended December 31, 2005 are its first financial statements prepared under IFRS, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002 (by which all companies governed by the law of an EU Member State and whose securities are admitted to trade on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after January 1, 2005 in conformity with the IFRS previously ratified by the European Union). In Spain, the requirement to present consolidated annual financial statements under IFRS is also established in Final Provision Eleven of Law 62/2003, dated December 30, on Tax, Administrative, Labor and Social Security Measures.

With respect to the regulations in force when the consolidated financial statements of the CAF Group for FY2004 (Spanish National Chart of Accounts RD 1643/1990) were prepared, these new regulations entail:

– Changes in the accounting policies, measurement criteria and presentation methods used to prepare the consolidated financial statements.

– The inclusion of two new financial statements — the statement of changes in equity and the consolidated cash flow statement, and

– An increase in the amount of information included in the notes to the consolidated annual financial statements.

In preparing the accompanying consolidated financial statements, the Group has taken account of IFRS-1, which establishes, for certain specific situations, allowed alternatives that first-time adopters of IFRS may apply in preparing their financial and accounts information.

The detail required under IAS 1 in respect of the transition from Spanish GAAP to IFRS is provided in Note 3.

c) Functional currency

The accompanying consolidated financial statements are presented in euros, as this is the functional currency in the primary economic environment in which the Group operates. Foreign currency transactions are recorded in accordance with the criteria described in Note 2-f.

d) Estimates

In preparing its 2005 consolidated financial statements, the CAF Group has occasionally relied on estimates.

These estimates were made on the basis of the best information available at December 31, 2005. However, it is possible that future events may require them to be increased or decreased in subsequent years. In compliance with IAS 8, any such changes would be applied prospectively, with the impact of the changed estimates being recognized in the corresponding item in the consolidated income statement.

e) Basis of comparison

In compliance with the requirements of IAS 1, the information included in these Notes in respect of FY2004 is presented for purposes of comparison with the information relating to FY2005 and, accordingly, does not correspond to the consolidated financial statements of the CAF Group for FY2004 (see Note 2-a).

The consolidated financial statements for FY004 included for comparative purposes have also been prepared in accordance with the IFRS adopted by the European Union which are consistent with those applied in FY2005, although the Group has availed itself of the exception provided for in IAS 1, as adopted by the European Union, which allows for the application of IAS 32 and IAS 39 relating to financial instruments, from January 1, 2005, without modification of comparative figures for the previous financial year. This exception should therefore be taken into account in any comparisons made between the two financial years.

At December 31, 2005, after detailed analysis of the individual items concerned, the Group recorded the balance of receivables due on various contracts net of the inventories associated with each in those cases where the balance of inventories was negative. If the same criteria had been applied in previous financial years, the balance of the "Trade receivables for sales and services" and "Inventories" lines of the consolidated balance sheet closed at December 31, 2004 would have been €123,756 thousand lower and higher, respectively.

f) Consolidable Group and consolidation principles

Scope of consolidation

The accompanying consolidated financial statements include the financial statements of the Parent Company and the companies under its control, control being here understood to mean having the power to influence the financial and operating policy of an entity so as to gain reward from its activities.

The accompanying consolidated financial statements for the year ended December 31, 2005, were prepared from the individual accounting records for that date of Construcciones y Auxiliar de Ferrocarriles, S.A. (Parent Company) (see Note 1) and of the subsidiaries listed below:

	% control or influence	Location	Line of Business	Auditor
Fully consolidated companies				
(*) Industrial Subgroup				
CAF, S.A.	Paret company	Guipúzcoa (Spain)	Marketing and manufacture of railroad equipment and components.	Deloitte
Constructora del Ferrocarril Suburbano, S.L.	93.2%	Guipúzcoa (Spain)	Railroad operating equipment.	Not required
Inversiones en Concesiones Ferroviarias, S.A.	77.6%	Guipúzcoa (Spain)	Promotion and development of companies through short-term holdings in their share capital.	Arco Auditores
Construcciones Ferroviarias de Madrid, S.L.U.	100%	Madrid (Spain)	Manufacture and assembly of railroad equipment and components.	Not required
Construcciones Ferroviarias CAF-Santana, S.A.	67%	Jaén (Spain)	Manufacture and assembly of railroad equipment and components.	Deloitte
Urbanización Parque Romareda, S.A.U.	100%	Zaragoza (Spain)	Ownership of shares.	Not required
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. (Mexico)	Marketing and manufacture of railroad equipment and components.	Deloitte
Ferrocarriles Suburbanos, S.A. de C.V.	93.2%	México D.F. (Mexico)	Provision of passenger transport services.	Deloitte
Constructora Mex. del Fer. Sub., S.A. de C.V.	93.2%	Mexico D.F. (Mexico)	Railroad operating equipment.	Not required
CAF Brasil Ind. e C., S.A.	100%	Sao Paulo (Brazil)	Marketing and manufacture or 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
CAF Irlanda, Ltda.	100%	Belfast (Northem Ireland)	Marketing and manufacture of railroad equipment and components.	Deloitte
CAF Italia, S.R.L.	100%	Roma (Italy)	Maintenance of railroad equipment.	Deloitte
R&D Subgroup				
CAF I+D, S.L. (Sole-Shareholder Company)	100%	Guipúzcoa (Spain)	Research and Development in connection with railroad material.	Not required
Sasismag, S.A.U.	100%	Guipúzcoa (Spain)	Preparation of operating manuals (inactive).	Alter Cons.
Ipar Sistemas 2002, S.L.	99.9%	Vizcaya (Spain)	Holding company.	Not required
Traintic, S.L.	99.9%	Guipúzcoa (Spain)	Manufacture of electronic products.	BSK

	% control or influence	Location	Line of Business	Auditor
Services Subgroup				
Sermanfer, S.A.U.	100%	Madrid (Spain)	Railroad material maintenance services.	Audiconta
Tradinsa Industrial, S.A.	80%	Lleida (Spain)	Repair and maintenance of railroad material.	Roig y Roig, Asociados
Sefemex, S.A. de C.V.	100%	México D.F. (Mexico)	Provision of servicesa and administration of personnel.	Horacio Ramírez y Asociados, S.C.
Companies accounted for by the equity method (Note 7)				
Sab Ibérica, S.A.	24.5%	Madrid (Spain)	Sale of railroad braking equipment.	Deloitte
AAI-CAF Transit, LLC	50%	Maryland (USA)	Manufacture and assembly or railroad equipment and components (inactive).	Deloitte
R&D Subgroup				
Lander Simul. and Training Solutions, S.A.	40%	Guipúzcoa (Spain)	Study and manufacture of simulators.	S.M. Auditores
Asirys Vision Technologies, S.A.	26%	Guipúzcoa (Spain)	Study and manufacture of automatic production systems.	S.M. Auditores

(*) The Parent Company guarantees financial support for its subsidiaries for a minimum period of one year.

Changes in the scope of consolidation

The following companies were included in the consolidated group for the first time in FY2005:

- Construcciones Ferroviarias CAF-Santana, S.A.: Incorporated on May 18, 2005 with issued capital of €2,000 thousand consisting of 2,000,000 shares of €1 par value each, fully subscribed and paid in, 67% by CAF, S.A. and the remaining 33% by a third party external to the Group. Its corporate purpose is the manufacture of railroad vehicles.

- CAF Italia, S.R.L.: Incorporated on June 1, 2005, with issued capital of €100 thousand, fully subscribed and paid in by CAF, S.A. Its corporate purpose is the maintenance of railroad equipment.

- Ferrocarriles Suburbanos, S.A. de C.V.: Incorporated on August 24, 2005 with issued capital of 50,000 pesos, consisting 50 shares of 1,000 pesos each, 70% subscribed by CAF, S.A. and 30% by Inversiones en Concesiones Ferroviarias, S.A. Its corporate purpose is, among others, the provision of all types of land transport passenger services, subject to the prior award of the corresponding concession.

- Constructora del Ferrocarril Suburbano, S.L.: Incorporated on December 31, 2005, following various corporate operations, with issued capital of €1,000 thousand consisting of 1,000,000 shares of €1 par value each, fully subscribed and paid in, 70% by CAF, S.A. and the remaining 30% by Inversiones en Concesiones Ferroviarias, S.A.

- Construcciones Ferroviarias de Madrid, S.L.: Incorporated on November 2, 2005 with issued capital of €2,000 thousand consisting of 2,000,000 shares of €1 par value each, fully subscribed and paid in by CAF, S.A. Its corporate purpose is the manufacture and assembly of railroad equipment and components.

- Constructora Mexicana del Ferrocarril Suburbano, S.A. de C.V.: Incorporated on December 21, 2005 with issued capital of 3,000,000 pesos consisting of 3,000,000 shares of 1 peso par value each, fully subscribed and paid in by Constructora del Ferrocarril Suburbano, S.L., the two companies having the same corporate purpose.

Consolidation method

"Subsidiaries" are considered to be those companies over which the Parent Company can exercise control. Control is demonstrated by the ability to influence the financial and operating policy of an entity so as to obtain benefits from its activities. Control is presumed to exist when the Parent Company has direct or indirect ownership of more than 50% of the investee company's voting rights or, if it owns less than 50% of the company's voting rights, when agreements have been concluded with the company shareholders that give the Parent Company effective control. The financial statements of subsidiaries are consolidated with those of the Parent Company using the global consolidation method. Therefore, all material balances and results of transactions carried out between consolidated companies have been eliminated on consolidation.

"Associates" are those companies over which the Parent Company has the capacity to exercise significant influence, although it has neither control nor joint control. Usually, this influence is evidenced by a direct or indirect holding of more than 20% of the investee company's voting rights. In the consolidated financial statements, investments in associates are accounted for by the equity method, i.e. at a value equivalent to the Group's proportional share in their equity after the deduction of dividends paid to the Group and other eliminations from equity (gains or losses from any transactions with associates are eliminated to the extent of the Group's interest in the relevant associate) less any impairment losses on the individual holdings. The effect of proportionally consolidating the investment to the shareholding in AAI-CAF Transit, LLC would not be material.

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 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 income/loss for the year, which is translated as stated above) and the net equity value resulting from the translation of the assets, rights and obligations at year-end exchange rates, at January 1, 2004, (see Note 3) is recorded under the "Shareholders' Equity- Translation Differences" caption in the consolidated balance sheet, net of the portion of this difference that relates to minority interests, which is recorded under the "Equity-Minority Interests" caption.

3 Transition to International Financial Reporting Standards (IFRS)

IFRS 1 stipulates that the first set of consolidated financial statements prepared under IFRS must include a reconciliation of the opening and closing balance sheets for the immediately preceding financial year with the closing balance sheet of the previous year and the opening balance sheet for the year to which these financial statements correspond, prepared in accordance with local (in this case, Spanish) accounting principles and regulations. IFRS 1 also requires a reconciliation with the income statement for the immediately preceding financial year, prepared in accordance with local accounting principles and regulations.

The CAF Group financial statements for 2005 are its first statements presented under IFRS. The last set of consolidated financial statements prepared under Spanish GAAP corresponds to the year ended December 31, 2004 (see Note 2-a). Accordingly, the IFRS transition date is January 1, 2004.

The reconciliation between the consolidated balance sheet at January 1, 2004, the IFRS transition date, and the balance sheet at December 31, 2004 and the reconciliation with the consolidated income statement for FY2004 are provided below. Changes deriving from the new measurement criteria and accounting principles adopted under IFRS are considered 'adjustments', while changes arising from the new presentation format for consolidated financial statements are considered 'reclassifications'.

Reconciliation of the CAF Group's assets and liabilities at January 1, 2004 under Spanish GAAP and under IFRS

		Thousands of euros		
		01.01.04		
	Notes	Spanish GAAP	Transition to IFRS	IFRS
ASSETS:				
Start-up expenses	1	45	(45)	—
Property, plant and equipment	2	81,420	42,247	123,667
Other intangible assets	—	17,596	—	17,596
Non-current financial assets (*)	3	18,780	90	18,870
Non-current assets		**117,841**	**42,292**	**160,133**
Deferred charges	**—**	**—**	**—**	**—**
Inventories	5	29,453	(5,014)	24,439
Trade and other receivables	—	320,234	—	320,234
Current financial assets	—	2,774	—	2,774
Income tax assets	3	5,719	(76)	5,643
Other current assets	—	315	—	315
Cash and cash equivalents	—	53,042	—	53,042
Current Assets		**411,537**	**(5,090)**	**406,447**
Total Assets		**529,378**	**37,202**	**566,580**
EQUITY AND LIABILITIES:				
Capital stock	—	10,319	—	10,319
Other reserves	7	117,847	25,735	143,582
Translation differences	6	(2,751)	2,751	—
Valuation adjustments	—	—	—	—
Income for the year	—	11,606	—	11,606
Minority interests	—	1,879	—	1,879
Equity	**—**	**138,900**	**28,486**	**167,386**
Deferred revenues	**5**	**5,014**	**(5,014)**	**—**
Financial liabilities	—	47,364	—	47,364
Provisions	—	831	—	831
Deferred income tax liabilities	3	2,433	13,730	16,163
Other non-current liabilities	—	2,105	—	2,105
Non-current liabilities		**52,733**	**13,730**	**66,463**
Payable to credit entities	—	47	—	47
Trade and other payables	—	261,795	—	261,795
Other current financial liabilities	—	13,941	—	13,941
Provisions	—	23,574	—	23,574
Current income tax liabilities	—	20,963	—	20,963
Other current liabilities	—	12,411	—	12,411
Current Liabilities		**332,731**	**—**	**332,731**
Total Liabilities		**529,378**	**37,202**	**566,580**

(*) Includes Deferred tax assets.

Reconciliation of the CAF Group's equity at December 31, 2004, under Spanish GAAP and IFRS

		Thousands of euros		
		12.31.04		
	Notes	Spanish GAAP	Transition to IFRS	IFRS
ASSETS:				
Start-up expenses	1	71	(71)	—
Property, plant and equipment	2	95,773	42,247	138,020
Other intangible assets	—	14,119	—	14,119
Non-current financial assets (*)	3	21,221	177	21,398
Non-current assets		**131,184**	**42,353**	**173,537**
Deferred charges	**4**	**5**	**(5)**	**—**
Inventories	5	19,848	(4,058)	15,790
Trade and other receivables	—	432,959	—	432,959
Current financial assets	—	24,283	—	24,283
Income tax assets	3	9,618	(153)	9,465
Other current assets	—	457	—	457
Cash and cash equivalents	—	1,434	—	1,434
Current Assets		**488,599**	**(4,211)**	**484,388**
Total Assets		**619,788**	**38,137**	**657,925**
EQUITY AND LIABILITIES:				
Capital stock	—	10,319	—	10,319
Other reserves	7	125,943	25,735	151,678
Translation differences	6	(2,809)	2,751	(58)
Valuation adjustments	—	—	—	—
Income for the year	8	14,056	(18)	14,038
Minority interests	—	1,959	—	1,959
Equity		**149,468**	**28,468**	**177,936**
Deferred revenues	**5**	**4,058**	**(4,058)**	**—**
Financial liabilities	—	66,634	—	66,634
Provisions	—	1,226	—	1,226
Deferred income tax liabilities	3	2,392	13,900	16,292
Other non-current liabilities	—	103	—	103
Non-current liabilities		**70,355**	**13,900**	**84,255**
Payable to credit entities	4	154	(5)	149
Trade and other payables	—	330,020	—	330,020
Other current financial liabilities	—	11,326	—	11,326
Provisions	—	23,956	—	23,956
Current income tax liabilities	3	20,957	(168)	20,789
Other current liabilities	—	9,494	—	9,494
Current Liabilities		**395,907**	**(173)**	**395,734**
Total Liabilities		**619,788**	**38,137**	**657,925**

(*) Includes Deferred tax assets

(1) In accordance with IAS 38 - Intangible Assets, Start-up expenses have been eliminated from the balance sheet.

(2) The CAF Group has chosen to revalue certain lands located in Spain at their fair value on the date of transition, based on an appraisal carried out by an independent expert. For subsequent accounting purposes, this fair value may be considered as deemed cost, which is an alternative treatment permitted under IFRS 1. The revaluation has increased the value of Property, plant and equipment by €42,247 thousand.

(3) All deferred tax assets and liabilities have been reclassified as non-current assets and liabilities. Likewise, the tax effect of IFRS adjustments subject to taxation is to generate corresponding deferred tax assets and liabilities.

(4) In the IFRS transition process, deferred expenses have been reclassified via a reduction in the value of the financial liability at their origin. The financial liability is thus henceforth recorded at amortized cost, pursuant to IAS 39 - Financial Instruments.

(5) The CAF Group has elected to record capital grants and operating subsidies after deduction of the value of the subsidized assets, pursuant to the alternative presentation method permitted under IFRS.

(6) In accordance with the alternatives established under IFRS 1 - First-time adoption of IFRS, the CAF Group has decided to eliminate Translation differences by transferring the accumulated balance at January 1, 2004 to reserves (see Notes 15-e and 15-g).

(7) The main adjustments to reserves carried out in the transition to IFRS are as follows:

	Thousands of euros	
	01.01.04	**12.31.04**
IAS 38.- Start-up expenses (net tax effect)	(31)	(31)
IAS 16. - Revaluation of land (net tax effect) (Notes 9 and 15)	28,517	28,517
IFRS 1.- Reclassification of translation differences	(2,751)	(2,751)
	25,735	**25,735**

		Thousands of euros		
		2004		
	Notes	**Spanish GAAP**	**Transition to IFRS**	**IFRS**
Net sales	—	578,012	—	578,012
Other revenues	5 and 9	5,903	(5,151)	752
Change in finished goods and work-in-progress inventories	5	(57,620)	5,165	(52,455)
Raw materials and other consumables used	—	(284,154)	—	(284,154)
Personnel expenses	—	(152,155)	—	(152,155)
Depreciation and amortization expense	5 and 8	(15,223)	44	(15,179)
Other expenses and net variation in operating allowances	9	(56,504)	(779)	(57,283)
Operating income (loss)		**18,259**	**(721)**	**17,538**
Financial revenues	—	2,989	—	2,989
Financial expenses	—	(3,064)	—	(3,064)
Financial loss		**(75)**	**–**	**(75)**
Share in the income of companies accounted for by the equity method		**217**	**–**	**217**
Other gains and losses (net)	9	(911)	696	(215)
Income (loss) before tax from continuing operations		**17,490**	**(25)**	**17,465**
Corporate income tax (net)	8	(3,371)	7	(3,364)
Income (loss) from continuing operations		**14,119**	**(18)**	**14,101**
Net income (loss) after tax from discontinuing operations	—	—	—	—
Income (loss) for the year		**14,119**	**(18)**	**14,101**
Minority interests	—	(63)	—	(63)
Income for the year attributed to the Parent Company		**14,056**	**(18)**	**14,038**

(8) In the course of 2004 the CAF Group capitalized and amortized a series of amounts corresponding to start-up expenses that under IFRS should be either recognized in income and/or already eliminated, respectively.

(9) In the process of transition to IFRS, revenues and expenses that, under Spanish GAAP, would have been recognized in "Extraordinary income (loss)" have been reclassified, where appropriate, via credit/debits to other accounts according to their nature and origin.

4 Accounting policies and measurement bases

The main valuation methods applied by the CAF Group in preparing its consolidated financial statements as of December 31, 2005, were as follows:

a) Other intangible assets

Computer software and research and development projects in respect of which the technical and commercial feasibility has been established are recognized at cost (or at the accumulated cost of production applied in accordance with the rules governing measurement of inventories - see Note 4-e). Computer software is amortized on a straight-line basis over a period of five years beginning on the date of its acquisition (see Note 8). R&D projects are amortized on a straight-line basis over a period of five years beginning from the date of their acquisition or completion or are recovered via an increase in the cost of the development contracts obtained over that period, in which case they are transferred to inventories (see Note 8).

b) Property, plant and equipment

Property, plant and equipment are recognized at cost, adjusted, as appropriate pursuant to applicable legislation, including the Guipúzcoa Regulation 11/1996 and Guipúzcoa Decree 13/1991, and the alternative provided for in IFRS 1 whereby the fair value at the date of transition to IRFS may be considered to be the deemed cost for certain specific assets (see Note 3).

The cost 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 via an increase in the cost of the corresponding assets.

In-house work performed by the consolidated companies on their own property, plant and equipment is recorded at the accumulated production cost allocated in accordance with inventory accounting policies (see Note 4-e).

The gain (loss) on the sale of property, plant and equipment was approximately €16 thousand in 2005 and €(214) thousand in 2004 and has been recognized in other gains and losses in the accompanying consolidated statement of income.

Property, plant and equipment are depreciated by the straight-line method at annual rates based on the following years of estimated useful life:

	Years of estimated useful life
Property	25 - 50
Plant and machinery	6 - 10
Other fixtures, tools and furniture	3 - 10
Other tangible fixed assets	10

c) Impairment of assets

At year-end the CAF Group reviews the value of its non-current assets to check for any indication that the assets in question are impaired. Where such indication exists, an estimate is made of the recoverable value of the asset which is used to calculate the amount of any required write-down should the asset need to be retired. The recoverable amount is the higher of an asset's net selling price and its value in use, which is the net present value of the future cash flows the asset is expected to generate.

If the recoverable value is estimated to be less than the asset’s carrying value, the corresponding impairment loss is recognized in the statement of income via a charge to "Depreciation and amortization expense" and in the consolidated balance sheet via a charge against "Property, Plant and Equipment - Accumulated depreciation".

Impairment losses recognized in previous years are reversed when there is a change in the estimate of its recoverable amount that increases the asset’s value up to the original carrying amount prior to the loss in value.

The CAF Group recorded no impairment losses in 2005 and 2004.

d) Financial assets

Trade and other receivables

These are recorded at market value at the time of initial recognition in the consolidated balance sheet and are subsequently carried at amortized cost using the effective interest method.

The provisions are established to cover the difference between the recoverable amount of trade and other receivables and their carrying value. At December 31, 2005, the amounts recorded for non-interest bearing long-term trade and other receivables were not material.

The Group establishes provisions to cover bad debts due to late payment, receivership or chapter 11-type insolvency proceedings, or any other cause, after performing a case-by-case analysis of the recoverability of the receivables in question. In 2005 and 2004 the net variation in the allowance for bad debts was a net application to income of approximately €32 thousand and €62 thousand (see Note 13).

The Group will, however, retire any trade receivables if and when all substantial risks and rights attached to ownership of the receivables have been assigned (under without recourse factoring agreements) by writing off the value of the assigned credit rights (see Note 6).

Financial investments

In accordance with the classification criteria established under IAS 39, the Group classifies its financial investments according to the following categories:

(1) Loans and other long-term receivables. These are carried at amortized cost, calculated using the effective interest rate. Amortized cost is the amount initially recognized less principal repayments and any reductions due to impairment loss or default. The effective interest rate is the discount rate that when applied to the initial value will give the present value of the future cash flows.

(2) Held-to-maturity investments. These correspond to investments with a fixed maturity date that the Group wishes and is able to hold to maturity. These investments are also carried at amortized cost.

(3) Marketable financial assets at fair value through profit and loss. These are assets that meet one or more of the following criteria:

- Are classified as marketable securities since they have been acquired to obtain short-term gain on fluctuations in their price.
- Are derivative instruments not designated as effective hedging instruments.
- Have been classified in this category since initial recognition.

As of December 31, 2005 the Group had no assets recorded under this item.

(4) Available-for-sale financial assets recognized at fair value. This category includes all financial assets acquired that are not held for trading, that are not classified as held-to-maturity, and/or are recognized at fair value through profit or loss. The Group has recognized shareholdings included in this category either at cost or at

their recoverable or market value (which is either the market price or carrying value at December 31, 2005, as appropriate). At each year-end these valuations are reviewed and, where appropriate, the corresponding provisions established with a charge to "Other operating expenses", since this method does not differ significantly from the market value.

CAF Group management determines the most appropriate classification for each asset at the time of acquisition and reviews this classification at the close of each financial year.

Cash and cash equivalents

This balance sheet account includes cash, sight deposits and other highly liquid short-term investments that are readily convertible into known amounts of cash and subject to insignificant risk of changes in value.

Trade and other payables

These are initially recognized at market value and subsequently measured at amortized cost using the effective interest rate method.

Payable to credit entities and other financial liabilities

Bank loans and borrowings are initially recognized at the fair value of the consideration received, less issue costs where applicable. They are subsequently measured at amortized cost, calculated via the effective interest rate method.

At December 31, 2005, the balance of bank loans and borrowings consisted entirely of interest accrued but not yet due (see Note 17).

Derivative financial instruments

The Group uses derivative financial instruments to hedge contracts won and certain investments in investees against the risk of exchange rate fluctuations to which it is exposed. Accordingly, the CAF Group has arranged forward currency contracts denominated, principally, in US dollars, Japanese yen, pound sterling and Swiss francs (see Note 18).

The Group reviews the criteria that financial derivatives must satisfy to be classified as a hedge, to ensure that they meet the following prerequisites: (1) They must constitute hedges against one of the following three types of risk — "fair value hedge", "cash flow hedge" or a "hedge of net investment in a foreign operation"; (2) They must effectively eliminate any risk in the item or position being hedged for the whole of the proposed hedging period, and (3) There must be adequate documentation showing that the financial derivative has been contracted specifically to hedge certain balances or transactions and indicating how an efficient hedge was to be achieved and measured, consistent with the Group's own risk management policies.

The CAF Group has drawn up financial risk management policies and objectives that establish, in writing, its policy regarding the use of derivatives as a hedging strategy.

These financial instruments are initially recognized at cost. Subsequently, changes in the fair value of derivative financial instruments that have been contracted and shown to be effective as hedges are recorded as follows:

– For fair value hedges, changes in the value of both the hedging instrument and the hedged asset or liability, -insofar as they relate to the risk being hedged-, are recognized directly in the accompanying consolidated statement of income in "Financial revenues/expenses".

– For cash flow hedges, changes in the value of the hedging instrument arising from the efficient part of the hedge are temporarily recognized in equity under the caption "Valuation adjustments".

– For hedges of net investments in foreign operations, changes in the value of the hedging instrument arising from the effective part of the hedge are temporarily recognized in equity as "Translation differences".

When a firm commitment leads to the recognition of an asset or liability in the consolidated balance sheet, amounts previously recognized in equity are recycled to the income statement.

e) Inventory valuation

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

Work-in-progress and finished and semi-finished goods are presented net of settled costs by the method described in Note 4-f, 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.
3. Interest costs: calculated according to the financial requirements directly assignable to each project.

f) Recognition of revenues and income

The Group generally recognizes revenues and income from construction contracts on the basis of the estimated percentage of completion, calculated according to the ratio of actual hours allocated to a contract to total budgeted hours. Potential losses on project contracts are recognized in full as soon as 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 revenues earned, the projected income from 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 "Goods and work-in-progress settlements not 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 12).

Sales of products, mainly parts, are recognized when ownership of the goods is transferred.

g) Customer advances and completed projects

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

– If the difference is positive, under "Trade receivables for sales and services – unbilled completed projects" caption (see Note 13).

– If the difference is negative, under "Trade and other payables - prepayments on orders" caption.

h) Foreign currency transactions and other commitments

The foreign currency assets and liabilities balances of consolidated foreign companies have been translated to euros as explained in Note 2-f. All other non-cash foreign currency assets and liabilities have been translated to euros at the exchange rates prevailing at December 31, 2005, with any differences arising from the translation being recognized in income. Where the Group has decided to reduce the exchange rate risk attached to foreign currency operations by using derivative financial instruments, these instruments are recognized according to the principle outlined in Note 4-d.

i) Classification of debt between short- and long-term

In the accompanying consolidated balance sheet, debts are classified according to their remaining term to maturity at the year-end. Debts maturing in less than twelve months are classified as short-term while those maturing in over twelve months are classified as long-term.

j) Subsidies

Group companies recognize subsidies received as followed:

1. Non-refundable capital subsidies are recognized at the time of their definitive award as a deduction, in the amount received, from the value of the subsidized asset and are credited to income in proportion to the rate of depreciation of the subsidized assets.
2. Operating subsidies are credited to income on the date of their definitive award via a reduction in the subsidized costs.

k) 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 event of retirement or death (see Note 16). The amounts recognized in this connection in 2005 and 2004 were €1,396 thousand and €1,377 thousand respectively and were recorded under "Personnel expenses" caption in the accompanying consolidated statement of income. In accordance with the collective labor agreement applicable, the Parent Company contributes an additional 1.75% of the salary base.

l) Early retirement payments and severance costs

At December 31, 2005, the caption of "Short-term provisions" in the accompanying consolidated balance sheet included €6,767 thousand corresponding to the present value, as estimated by the Directors, of future payments to workers with whom the Group had concluded early retirement or redundancy agreements at December 31, 2005. In 2005, this provision was recognized in "Personnel Expenses" caption in the accompanying consolidated statement of income (see Notes 19, 21 and 23).

m) Corporate income tax

The expense for Spanish corporate income tax and analogous taxes applicable to consolidated foreign operations is recognized in the consolidated income statement, except when the tax expense is generated by a transaction in respect of which the gains taken directly to equity, in which instance the corresponding tax is also recognized in equity.

The corporate income tax expense for the year is calculated on the basis of taxable income for the year. Taxable income for the year differs from the profit before tax presented in the consolidated income statement in that it excludes certain taxable revenues and deductible expenses from prior years and certain other items that are never taxable or deductible.

Deferred tax assets and liabilities are tax assets and liabilities that are expected to be either payable or recoverable that arise as a result of differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used to calculate taxable profit. They are recognized using the balance sheet liability method and are measured by multiplying the value of the temporary difference or tax credit by the current rate of the relevant tax, i.e. the tax that is expected to be levied on the temporary difference or that is expected to be offset against the credit.

In accordance with IFRS, deferred tax assets are classified as non-current assets even if they are expected to be realized within the next twelve months.

In accordance with current legislation, tax assets corresponding to unused tax relief and tax credits are recorded for accounting purposes provided that they are expected to meet the conditions established under tax legislation. At December 31, 2005, the Group had recorded a tax asset of €6,000 thousand in this connection, after estimating the corporate income tax charge for 2005 (see Note 19) and recording €4,411 thousand via a credit to "Corporate income tax" caption in the accompanying consolidated statement of income. In addition, in view of the inherent uncertainty regarding the recovery of assets of this nature, in accordance with the accounting principle of prudence and based on a valuation of its current order book, the Group has maintained the provision of €3.5 million already recorded in previous years (see Note 21).

Of the total asset amount recorded, €4,685 thousand was recognized in the accompanying consolidated balance sheet for the year ended December 31, 2005 under "Non-current financial assets – loans and other receivables" caption (see Note 10) and the remainder "Taxes receivables" caption (see Note 20).

n) Leases

The CAF Group classifies as finance leases all lease agreements in which the lessor transfers to the lessee all risks and benefits attached to ownership of the leased asset. Other lease arrangements are classified as operating leases.

The CAF Group had no financial lease agreements at December 31, 2005.

Expenses accruing on operating leases in the life of the agreement are recognized on an accruals basis in the consolidated statement of income under "Other operating expenses" caption.

o) Long-term provisions

The Group makes provisions whenever a current liability arises as a result of a past event and it is expected that, when the liability falls due, an outflow of resources will be required in settlement. The provision established is based on the best estimate made at that date by the parent Company's directors and is recorded at present value if the financial effect is material. In 2005 and 2004 the Group made payments of €559 thousand and €834 thousand and established provisions of €95 thousand and €1,229 thousand, which were mainly charged to "Personnel expenses" caption (see Note 23).

p) Short-term provisions

This account in the accompanying consolidated balance sheet includes the allowances recorded by the Group mainly to cover guarantee and contractual service fees, and other activity-related expenses (royalties, penalties, etc.) (Notes 4-l and 21). In the "Other operating expenses" caption of the accompanying 2005 consolidated income statement, the consolidated companies have recognized €8,540 thousand corresponding to the difference between provisions established for these concepts at the year-end and those established at the close of the previous year. The expense recorded for the provision of contractual guarantee services in 2005 and 2004 amounted to €9.037 thousand and €4.967 thousand, approximately and were recorded under "Raw materials and Other consumables used" and "Personnel Expenses" captions of the accompanying consolidated statements of income for 2005 and 2004.

q) Environmental issues

The Group recognizes environmental investments at acquisition or production cost, net of accumulated depreciation, in the appropriate "Property, plant and equipment" caption (see Notes 9 and 22-c).

Expenses incurred in compliance with applicable environmental legislation are recorded in the accompanying consolidated statement of income, by type, under "Other Operating Expenses" caption (see Note 22-c).

2004 saw the approval of Royal Decree 1866/2004 governing the Spanish National Plan on CO_2 Emission Rights for the period 2005-2007. Under the terms of this regulation, CAF must have emission rights for all CO_2 emissions it releases from January 1, 2005. Royal Decree 60/2005 approved the allocation, without charge, of individual emission rights for each plant for the period 2005-2007, with CAF being granted rights to emit 67,464 tonnes of CO_2 over this period. Should CAF's CO_2 emissions exceed these assigned rights, the Group will be required to acquire further rights in the market.

From 2005 onwards European companies that issue CO_2 emissions must, in the opening months of the year, present CO_2 emission rights equivalent to emissions issued in the past year.

In 2005 the Group's emission levels were more or less equal to the level of rights assigned for that year. Accordingly, no expense was recorded at the year-end.

r) Cash flow statement

The consolidated cash flow statement was prepared by the indirect method and the terms used are defined as follows:

– Cash flows: inflows and outflows of cash and cash equivalents, the latter being understood to mean highly liquid short-term investments subject to insignificant risk of changes in value.

– Operating activities: ordinary activities undertaken by companies making up the consolidated group, and all other activities that cannot be classified as investing or financing activities.

– Investing activities: the acquisition, sale or disposal by other means of non-current assets and other investments not classified as cash and cash equivalents.

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

s) Earnings per share

Basic earnings per share is the ratio between the net profit for the year attributable to the Parent Company and the weighted average number of ordinary shares outstanding in the period.

In the case of the consolidated financial statements of the CAF Group for the year ended December 31, 2005, basic earnings per share is the same as diluted earnings per share, as there were no potential ordinary shares outstanding in that year.

t) Discontinuing operations

A discontinuing operation is a business line that the Group has decided to discontinue and/or dispose of and whose assets, liabilities and profits are distinguishable physically, at operating level and for financial reporting purposes. Income and expenses from discontinuing operations are stated separately in the consolidated income statement.

No business unit or segment was discontinued in 2005 nor 2004.

5 Distribution of income of the Parent Company

The Parent Company's Directors propose the following distribution of 2005 income:

Distribution	Thousands of euros
To voluntary reserves	8,580,795
Dividens	5,484,920
Total	**14,065,715**

6 Financial risk management policy

The Group's activities expose it to a variety of financial risks, including market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Group's Financial Department identifies, evaluates and hedges financial risks providing written policies for overall risk management as well as covering specific areas, such as exchange rate risk, interest rate risk, liquidity risk, use of derivative and non-derivative financial instruments, and investing excess liquidity.

a) Market risk

The Group operates internationally and therefore is exposed to exchange rate risk on their foreign currency transactions (principally US dollar and euro). Exchange rate risk arises from future commercial transactions, recognised assets and liabilities, and net investments in foreign operations.

Group companies use forward contracts to manage exchange rate risk associated with future commercial transactions and recognised assets and liabilities, which arises when the transactions or assets and liabilities in question are denominated in a currency other than the Group's functional currency of operation (i.e. the euro).

The Group's standard practice is to hedge against the market risk associated with contracts denominated in currencies other than its functional currency with the aim of preventing currency fluctuations from impacting on the various contracts concluded and thereby ensuring that the Group's financial statements provide a true and fair view of its industrial and service activities.

b) Credit risk

For the most part, the balance of trade and other receivables and work-in-progress correspond to contracts with clients located in foreign countries, which are generally remunerated on the basis of project progress.

The Group's standard practice is to hedge against the termination or default risk associated with contracts concluded with clients in non-OECD countries using export insurance policies, pursuant to the OECD Council Guidelines on policies of this type.

In addition, the Group has obtained firm financial commitments from various financial institutions for the acquisition, without recourse, of its receivables. Under the terms of these agreements, the Group pays a fee to the financial institutions involved in return for assuming its credit risk, plus interest and a finance charge.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, marketable securities and credit facilities sufficient to cover the timely payment of all commitments.

The CAF Group manages liquidity risk by always:

- Seeking the highest possible level of equity financing on all contracts concluded.
- Maintaining undrawn credit facilities

d) Cash flow and fair value interest rate risk

The Group exposes itself to interest rate risk when using external sources of financing.

The CAF Group's general policy is to settle all amounts owed to third parties in due time using short-term external financing bearing interest at rates linked to variable market indices (normally the Euribor). This policy substantially reduces the interest rate risk to which it is exposed.

7 Segment information

7.1. Segmentation criteria

The criteria used to draw up the segment information contained in the accompanying consolidated financial statements were as follows:

– Primary segmentation was based on business units, separating "railroad" activities from "parts and components" activities.

– Secondary segmentation was based on the Group's geographical locations.

7.2. Segment information – basis and methodology

Segment revenues and expenses include only revenues and expenses directly attributable to the segment and therefore exclude interest and dividend income, gains or losses on the sale of financial assets, and debt recoveries or cancellations. The segment result is presented before adjustments for minority interests. Segment assets and liabilities are those directly related to the operation of the segment.

Primary segmentation

In line with IFRS primary segmentation criteria, the CAF Group considers the two business units in operation until 2005 to constitute primary business segments, since it considers their organizational and management structures and their internal system for reporting to administrative and executive bodies to be such that the associated risks and returns are primarily governed by the fact that their operations are carried out in one or other area of these businesses, which shall be understood to mean the full set of related products and services. In short, the primary segmentation process distinguishes between all identifiable parts of the Group that are subject to different risks and returns to those characterizing other operating units that carry out their activities in other environments.

Accordingly, and in line with past practice, two primary segments have been identified that are considered to meet internal homogeneity requirements in terms of the similarity of their financial position and policies and the risks deriving from applicable regulations, exchange rates or similarity of business activities, and which differ from other segments for these same reasons:

• Railroad.

• Parts and components.

Segment information for each of these business segments is presented below.

Primary segmentation (Business segments)	2005 (Thousands of Euros) Railroad	Parts and components	General	Total
REVENUE:				
Sales to external customers	641,541	39,257	—	680,798
Inter-segment sales		24,052	—	24,052
Inter-segment eliminations	(24,052)	—	—	(24,052)
Total sales	**617,489**	**63,309**	**—**	**680,798**
RESULTS:				
Segment results	27,376	57	(4,130)	23,303
Income from associates	—	—	204	204
Net financial revenue (expense)	—	—	(885)	(885)
Net gain (loss) on disposal of non-current assets	—	—	27	27
Profit before tax	**27,376**	**57**	**(4,784)**	**22,649**
Income tax expense	—	—	(4,469)	(4,469)
Net profit for the year	**27,376**	**57**	**(9,253)**	**18,180**
Profit (loss) attributable to minority interests	—	—	(37)	(37)
Profit (loss) attributable to the Parent Company	**27,376**	**57**	**(9,290)**	**18,143**
ASSETS:				
Other intangible assets	12,532	101	—	12,633
Property, plant and equipment	126,986	14,156	5,267	146,409
Inventories	41,425	25,963	1	67,389
Trade and other receivables	311,478	12,150	1,328	324,956
Other non-current assets	—	—	33,469	33,469
Other current assets	—	—	55,733	55,733
Total assets	**492,421**	**52,370**	**95,798**	**640,589**
EQUITY AND LIABILITIES:				
Profit	27,376	57	(9,290)	18,143
Trade payables	257,141	8,807	3,702	269,650
Operating provisions	26,234	519	12,767	39,520
Other non-current financial liabilities	62,185	—	—	62,185
Other current financial liabilities	16,103	—	—	16,103
Equity (ex profit (loss) for the year)	—	—	174,472	174,472
Other non-current liabilities	—	—	21,050	21,050
Other current liabilities	—	—	39,466	39,466
Total equity and liabilities	**389,039**	**9,383**	**242,167**	**640,589**

	2004 (Thousands of Euros)			
Primary segmentation (Business segments)	**Railroad**	**Parts and components**	**General**	**Total**
REVENUE:				
Sales to external customers	538,914	39,098	—	578,012
Inter-segment sales	—	16,789	—	16,789
Inter-segment eliminations	(16,789)	—	—	(16,789)
Total sales	**522,125**	**55,887**	**–**	**578,012**
RESULTS:				
Segment results	17,112	3,932	(3,507)	17,537
Income from associates	—	—	217	217
Net financial revenue (expense)	—	—	(74)	(74)
Net gain (loss) on disposal of non-current assets	—	—	(215)	(215)
Profit before tax	**17,112**	**3,932**	**(3,579)**	**17,465**
Income tax expense	—	—	(3,364)	(3,364)
Net profit for the year	**17,112**	**3,932**	**(6,943)**	**14,101**
Profit (loss) attributable to minority interests	—	—	(63)	(63)
Profit (loss) attributable to the Parent Company	**17,112**	**3,932**	**(7,006)**	**14,038**
ASSETS:				
Other intangible assets	14,119	—	—	14,119
Property, plant and equipment	117,135	15,152	5,733	138,020
Inventories	(7,571)	23,361	—	15,790
Trade and other receivables	425,754	6,198	1,007	432,959
Other non-current assets	—	—	21,398	21,398
Other current assets	—	—	35,639	35,639
Total assets	**549,437**	**44,711**	**63,777**	**657,925**
EQUITY AND LIABILITIES:				
Profit	17,112	3,932	(7,006)	14,038
Trade payables	318,849	8,669	2,502	330,020
Operating provisions	17,646	310	6,000	23,956
Other non-current financial liabilities	66,552	—	—	66,552
Other current financial liabilities	11,326	—	—	11,326
Equity (ex profit (loss) for the year)	—	—	163,897	163,897
Other non-current liabilities	—	—	17,703	17,703
Other current liabilities	—	—	30,433	30,433
Total equity and liabilities	**431,485**	**12,911**	**213,529**	**657,925**

Assets and liabilities in shared use, and the income generated by them, have not been allocated to any given segment. Reconciliation items resulting from comparison of the integrated financial statements of the different business segments (segmented on the basis of management criteria) with the CAF Group's consolidated financial statements are also unallocated.

Secondary segmentation

Secondary segmentation is by geographical segment:

• Spain.

• Foreign countries.

Second information for each of these secondary segments is as follows:

a) The breakdown of sales by geographical segments, at December 31, 2005 and 2004, was as follows (in thousands of euros):

Geographical area	2005	%	2004	%
Spain	380,396	55.88	257,261	44.51
Foreign countries (*)	300,402	44.12	320,751	55.49
Total	**680,798**	**100.00**	**578,012**	**100.00**

(*) The majority of sales on foreign markets are made by the Parent Company based in Spain

b) The breakdown of net investments in property, plant and equipment by geographical segments, at December 31, 2005 and 2004, was as follows (in euros):

Geographical area	2005	2004
Spain	140,583,069	132,804,736
Foreign countries	5,825,624	5,215,644
Total	**146,408,693**	**138,020,380**

8 Other intangible assets

The variations in other intangible fixed asset accounts and the related accumulated amortization in the years ended December 31, 2005 and December 31, 2004 were as follows:

	Euros			
	Development costs	**Software**	**Other**	**Total**
Balance at 01.01.04				
Cost	19,906,916	9,205,829	—	29,112,745
Accumulated amortization	(5,765,618)	(5,750,706)	—	(11,516,324)
Net	**14,141,298**	**3,455,123**	**—**	**17,596,421**
Cost				
Inclusions in the Consolidated Group (Note 2-f) (*)	—	102,437	29,713	132,150
Additions (*)	6,637,442	—	—	6,637,442
Transfers from inventories (Note 12)	2,328,788	—	—	2,328,788
Transfers to inventories (Note 12)	(8,295,995)	—	—	(8,295,995)
Balance at 12.31.04	**20,577,151**	**9,308,266**	**29,713**	**29,915,130**
Inclusions in the Consolidated Group (Note 2-f) (*)	—	1,323	—	1,323
Additions (*)	3,757,218	212,998	—	3,970,216
Transfers	—	(36,652)	—	(36,652)
Transfers to inventories (Note 12)	(1,176,563)	—	—	(1,176,563)
Balance at 12.31.05	**23,157,806**	**9,485,935**	**29,713**	**32,673,454**
Accumulated amortization				
Inclusions in the Consolidated Group (Note 2-f) (*)	—	(6,497)	(11,685)	(18,182)
Additions or provisions (*)	(2,844,918)	(1,416,396)	—	(4,261,314)
Balance accumulated amortization at 12.31.04	**(8,610,536)**	**(7,173,599)**	**(11,685)**	**(15,795,820)**
Inclusion in the Consolidated Group (Note 2-f) (*)	—	(437)	—	(437)
Additions or provisions (*)	(3,161,377)	(1,094,605)	(7,011)	(4,262,993)
Transfers	—	18,326	—	18,326
Balance accumulated amortization at 12.31.05	**(11,771,913)**	**(8,250,315)**	**(18,696)**	**(20,040,924)**
Net 12.31.04	**11,966,615**	**2,134,667**	**18,028**	**14,119,310**
Net 12.31.05	**11,385,893**	**1,235,620**	**11,017**	**12,632,530**

(*) Includes the effect of currency translations

As detailed in Note 4-a, in 2005 the Group transferred €1,177 thousand in capitalized development costs previously associated with a project to a contract awarded in which the technology developed is used (see Note 12).

9 Property, plant and equipment

The variations in the property, plant and equipment accounts and related accumulated depreciation in the years ended December 31, 2005 and December 31, 2004 were as follows:

	Euros					
	Land and buildings	Plant and machinery	Other fixtures, tools and furniture	Other tangible fixed assets	Advances and construction in progress	Total
Balance at 01.01.04						
Cost	123,611,949	135,093,360	8,600,657	13,969,511	476,828	281,752,305
Accumualted depreciation	(44,594,890)	(97,641,356)	(5,698,364)	(10,150,112)	—	(158,084,722)
Net	**79,017,059**	**37,452,004**	**2,902,293**	**3,819,399**	**476,828**	**123,667,583**
Acquisition cost or market value						
Inclusions in the Consolidated Group (Note 2-f) (*)	2,450,608	331,884	152,728	135,342	—	3,070,562
Additions (*)	10,859,055	8,655,539	934,996	1,949,928	12,465	22,411,983
Transfers	(404,840)	473,982	(3,829)	19,140	(489,293)	(404,840)
Retirements or reductions (*)	(1,071,118)	(4,667,115)	—	(20,354)	—	(5,758,587)
Balance at 12.31.04	**135,445,654**	**139,887,650**	**9,684,552**	**16,053,567**	**–**	**301,071,423**
Inclusions in the Consolidated Group (Note 2-f) (*)	—	19,020	—	14,559	—	33,579
Additions (*)	9,944,896	8,869,684	774,711	1,413,585	—	21,002,876
Transfers	(1,556,992)	1,762,032	148,351	(58,394)	—	294,997
Retirements or reductions (*)	(379,686)	(9,785,202)	(261,839)	(2,841,879)	—	(13,268,606)
Balance at 12.31.05	**143,453,872**	**140,753,184**	**10,345,775**	**14,581,438**	**–**	**309,134,269**
Accumulated depreciation						
Inclusions in the Consolidated Group (Note 2.f) (*)	—	(185,545)	(9,866)	(136)	—	(195,547)
Additions or Provisions (*)	(1,807,103)	(6,982,434)	(514,440)	(1,259,975)	—	(10,563,952)
Transfers	404,840	—	—	—	—	404,840
Retirements or reductions (*)	978,989	4,404,936	—	4,413	—	5,388,338
Balance Accumulated depreciation 12.31.04	**(45,018,164)**	**(100,404,399)**	**(6,222,670)**	**(11,405,810)**	**–**	**(163,051,043)**
Inclusions in the Consolidated Group (Note 2-f) (*)	—	—	—	(384)	—	(384)
Additions or Provisions (*)	(2,278,289)	(7,729,912)	(628,245)	(1,684,717)	—	(12,321,163)
Transfers	—	(294,997)	—	—	—	(294,997)
Retirements or reductions (*)	233,298	9,701,699	219,916	2,787,098	—	12,942,011
Balance of accumulated depreciation 12.31.05	**(47,063,155)**	**(98,727,609)**	**(6,630,999)**	**(10,303,813)**	**–**	**(162,725,576)**
Net 12.31.04	**90,427,490**	**39,483,251**	**3,461,882**	**4,647,757**	**–**	**138,020,380**
Cost	48,180,360	39,483,251	3,461,882	4,647,757	—	95,773,250
Market value	42,247,130	—	—	—	—	42,247,130
Net 12.31.05	**96,390,717**	**42,025,575**	**3,714,776**	**4,277,625**	**–**	**146,408,693**
Cost	54,143,587	42,025,575	3,714,776	4,277,625	—	104,161,563
Market value	42,247,130	—	—	—	—	42,247,130

(*) Includes the effect of currency translations

Investments in plant made by the Group in 2005 and 2004 were geared towards increasing its productioncapacity.

In 2005 the Group carried out an exhaustive audit of its property, plant and equipment and retired items to the value of €12,282 thousand that were fully depreciated and no longer in active use.

The revaluations made pursuant to Guipúzcoa Regulation 11/1996 and Guipúzcoa Decree 13/1991 increased the annual depreciation charges recorded in 2005 and prior years by approximately €309 thousand and €3,500 thousand, respectively.

At 31 December 2005 the Group had firm investment commitments amounting to €10,006 thousand.

The consolidated companies contract insurance policies to provide adequate cover for their property, plant and equipment. At December 31, 2005, these insurance policies covered the carrying amount of all property, plant, and equipment existing at that date.

At December 31, 2005, the gross cost of property, plant and equipment that was fully depreciated and still in use was approximately €112,691 thousand.

The Group deducts the value of capital grants received for the acquisition of assets from the carrying value of the assets acquired. At December 31, 2005, the net value of capital grants received pending depreciation was €1,875 thousand. In 2005 a depreciation charge of €224 thousand was recorded under the "Depreciation and amortization expense" caption in the accompanying consolidated statement of income.

Impairment losses

At December 31, 2005, in the opinion of the Directors, there were no indications of impairment in the Group’s property, plant and equipment and nor eliminations or reductions were consequently made.

10 Investments in associates and Non-current financial assets

The variations in investments in associates and non-current financial assets in the years ended December 31, 2005 and December 31, 2004, were as follows:

	Euros								
	Investments in associates	Securities portfolio		Other financial investments		Financial Instruments (see Notes 2.e and 18)	Loans and other receivables		Total
	Cost	Amortized cost	Provisions	Amortized cost	Provisions	Market value	Amortized cost	Provisions	
Balance at 01.01.04	**439,778**	**9,621,425**	**(92,384)**	**2,007,432**	**(333,998)**	**–**	**7,114,909**	**(1,707,371)**	**17,049,791**
Inclusions in the Consolidated Group (Note 2-f) (*)	457,567	—	—	—	—	—	457,882	—	915,449
Additions or Provisions (*)	—	—	(144,889)	1,986,676	(601,000)	—	3,746,217	—	4,987,004
Retirements or reductions (*)	(50,095)	—	—	(333,998)	(333,998)	—	(2,300,353)	15,313	(2,335,135)
Transfers, repayments and writedowns	—	—	—	—	(330,302)	—	—	—	(330,302)
Balance at 12.31.04	**847,250**	**9,621,425**	**(237,273)**	**3,660,110**	**(931,302)**	**–**	**9,018,655**	**(1,692,058)**	**20,286,807**
Inclusions in the Consolidated Group (Note 2-f) (*)	—	2,040,000	—	—	—	—	87,178	—	2,127,178
Additions or Provisions (*)	23,836	—	(472,432)	14,602,085	(4,743,000)	(1,390,035)	5,843,484	(559,536)	13,304,402
Retirements or reductions (*)	(142,274)	—	—	(1,222,816)	422,345	—	(4,515,355)	—	(5,458,100)
Transfers, repayments and writedowns	—	—	—	(806,514)	222,844	—	(1,243,036)	—	(1,826,706)
Balance at 12.31.05	**728,812**	**11,661,425**	**(709,705)**	**16,232,865**	**(5,029,113)**	**(1,390,035)**	**9,190,926**	**(2,251,594)**	**28,433,581**

(*) Includes the effect of currency translations.

a) Investments in associates

Information on investments in associates accounted for by the equity method is set out below (in euros):

Name	Registered Office	Line of Business and Corporate Purpose	Percentage of ownership		Gross book value (1)	Basic financial data (2)			Auditor
			Direct	Indirect		Capital	Reserves and retained earnings	2005 Income (Loss)	
Sab Ibérica, S.A.	Madrid (Spain)	Sale of railroad braking equipment.	24.5%	—	84,826	84,140	839,436	631,698	Deloitte (In progress)
Lander Simulation and Training Solutions, S.A.	Gipúzcoa (Spain)	Study and manufacture of simulators.	—	40%	247,615	150,250	386,288	159,590	S.M. Auditores
Asirys Vision Technologies, S.A.	Gipúzcoa (Spain)	Study and manufacture of automatic production systems.	—	26%	173,307	109,090	211,538	(54,017)	S.M. Auditores

(1) On holding company accounts.

(2) After adjustments and unification for consolidation purposes (in euros).

b) Non-current securities portfolio

This account records the Group's direct and indirect holdings, of 5%, 7.6%, 15% and 20% respectively, in "Alquiler de Trenes A.I.E.", "Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A.", "Arrendadora de Equipamientos Ferroviarios, S.A." and "Dano-Rail, S.Coop". All these investments are classified as available-for-sale financial assets.

These equities were assigned in pledge on December 31, 2005 as a result of a finance agreement concluded between "Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A." and a credit institution on February 16, 2004.

"Trenes en Arrendamiento, A.I.E." a Group associate with issued capital of €10,000 thousand, 95%-owned by CAF, S.A. and 5%-owned by Inversiones en Concesiones Ferroviarias, S.A., was incorporated in 2005. The company subsequently became a limited liability company operating under the name "Arrendadora de Equipamientos Ferroviarios, S.A." and 85% of the company's shares and the corresponding voting rights (which were previously 80%-owned by CAF, S.A. and 5%-owned by Inversiones en Concesiones Ferroviarias, S.A.) were assigned to a third party, without accounting profit or loss. Subsequently, in the course of the year, the company carried out a capital increase in the amount of €2,000 thousand which was subscribed by its shareholders in proportion to their existing ownership interests. The company's corporate purpose is to lease vehicles produced by the Group to third parties under operating lease. At December 31, 2005, issued capital in the amount of €1,065 thousand was not yet fully paid in and recorded as "Other non-current liabilities" caption in the accompanying consolidated balance sheet. The Group's Directors do not expect this payment to be called in the near-term future.

On December 15, 2005, a capital increase in the amount of €240,000 was carried out by Group associated "Dano-Rail, S.Coop." through the issue of 240 new shares with a unit par value of €1,000. These shares were fully subscribed by CAF I+D, S.L. (sole shareholder company) but at December 31, 2005 were not yet fully paid. The company's principal activity is the construction of equipment and the provision of services in the railroad manufacturing and maintenance sector.

c) Other financial investments

"Other current financial investments" and "Other non-current financial investments" captions include, inter alia, the receivables of the Parent Company's resulting from its share ownership scheme, which are classified as held-to-maturity investments.

In 2005 the Parent Company acquired and recognized under this heading at an amount of €14,273 thousand a new asset instrumented in a series of "Rights" composing a CAF share ownership scheme. These "rights" were acquired from Cartera Social, S.A. (see Note 15), a company in which CAF's employees, acting in representation of all fixed employees who subscribe to the scheme, have equity interests and whose corporate purpose is to promote access to CAF share ownership for all employees. Cartera Social, S.A. is the only owner of the shares, with all politic and economic rights. The Company has undertaken to sell and employees has undertaken to buy these "Rights" in 84 more or less equal monthly installments. The aforementioned shares will be owned by Cartera Social, S.A. until the "Rights" are exercised by employees, which event cannot take place prior to the termination of the employer/employee relationship. In this period Cartera Social, S.A. will finance ownership of the shares essentially using the amount paid by CAF to purchase the aforementioned rights.

Since the Parent Company acquired the aforementioned "Rights" at a price which, net of the 20% discount offered to employees and the contribution of Cartera Social, S.A. (20%), is higher than their selling price, the scheme will generate a loss extending over the seven-year period of its implementation. CAF may, however, unilaterally terminate the commitment assumed in respect of Cartera Social, S.A. and its employees, in which case it will be entitled to receive reimbursement, in proportion to the value of "Rights" acquired but not sold to employees, at the original price and thus without additional cost. In 2005 CAF's Directors undertook not to unilaterally terminate the commitment within the next five years.

As a result of this commitment, and in order to adjust the cost of the rights acquired to their net realizable value, at December 31, 2005 the Parent Company recorded a provision of €4,743 thousand via a charge to "Other operating expenses" in the accompanying consolidated statement of income. At December 31, 2005, the part of this asset that may foreseeably be sold in the course of the year, together with the related provision, was included under "Short –term investments" caption in the accompanying consolidated balance sheet at that date (see Note 14). In 2005 rights with a total cost value and provision of approximately €1,223 thousand and €422 thousand, respectively, were sold (see Note 14).

d) Financial instruments

This account reflects the market value of exchange rate hedging contracts with long maturity dates (see Note 18).

e) Loans and other receivables

This account reflects current income tax assets, which consist mainly of tax credits (see Notes 4-m and 20), other long-term tax assets and long-term guarantees established. These receivables are carried at amortized cost. The value of the assets is broadly the same as their amortized cost.

11 Related party transactions and outstanding balances

The breakdown of transactions with associates and other related parties that were not eliminated in consolidation (see Note 2-f) are as follows:

	Euros					
	2005			2004		
Company	**Services provided or sales**	**Services received or purchases**	**Dividends received**	**Services provided or sales**	**Services received or purchases**	**Dividends received**
Sab Ibérica, S.A.	81,678	3,749,446	163,406	66,988	2,526,495	213,501
Subgrupo CAF I+D	—	—	40,000	—	1,683,237	—
Alquiler de Trenes A.I.E.	104,865,281	—	—	—	—	—
Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A.	19,775,680	—	—	9,273,088	—	—

As a result of these transactions, of those performed in prior years and of the advances granted, the Group's balances with investees which were not fully consolidated as of at December 31, 2005 and 2004, were as follows (see Note 2-f):

	Euros			
	12.31.05		12.31.04	
Company	**Accounts receivables**	**Accounts payables**	**Accounts receivables**	**Accounts payables**
Sab Ibérica, S.A.	3,433	583,742	17,896	717,457
Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A.	—	—	—	2,104,850
Alquiler de Trenes, A.I.E.	265,727 (1)	—	—	41,945,520 (2)
Other	—	12,251	—	10,611
	269,160	595,993	17,896	44,778,438

(1) Registered in the "Trade and other receivables" caption.
(2) Registered in the "Trade and other payables – Advances received on orders" caption.

12 Inventories and construction contracts

The breakdown of the balance of the "Inventories" caption as of December 31, 2005 and 2004 was as follows:

	Euros	
	12.31.05	**12.31.04**
Raw materials and other supplies (Note 22)	53,501,502	78,167,782
Work-in-progress, finished and semi-finished goods (Note 4-j)	530,216,767	376,139,976
Goods and work-in-progress settlements not in excess of incurred cost	(538,660,767)	(501,595,563)
Advances to suppliers	22,331,941	63,077,531
	67,389,443	15,789,726

The "Goods and work-in-progress settlements not in excess of incurred cost" account relates to the settlement of costs on the basis of the actual percentage of completion (see Notes 4-f and 13).

From the carrying value of "Work-in-progress, finished and semi-finished goods", the Group deducts the value of grants received for their acquisition. At December 31, 2005 and 2004, the net value of grants received pending amortization was €2,224 thousand and €4,058 thousand, respectively. The amounts recorded for operating subsidies and capital grants under "Change in finished goods and work-in-progress inventories" caption in the accompanying consolidated income statement in 2005 and 2004 were €1,428 thousand and €5,165 thousand respectively.

A breakdown of information pertaining to CAF Group's construction contracts is provided in Note 7 on segmentation, within the "Railroad" segment, which accounts for 98% of the Group's revenue.

As of December 31, 2005 the Group had firm raw materials purchase commitments amounting to approximately €711,288 thousand (see Note 27).

13 Trade and other receivables

The breakdown of trade and other receivables at December 31, 2005 and 2004 was as follows:

	Euros	
	12.31.05	**12.31.04**
Trade receivables-in euros	221,094,997	396,282,843
Trade receivables-in foreign currencies (Note 4-h)	104,836,506	37,669,569
Receivable from associates (Note 11)	3,433	17,896
Impairment provisions (Note 4-d)	(979,191)	(1,011,285)
	324,955,745	**432,959,023**

These balances receivable arose as a result of the recognition of the percentage of completion of contracts as described in Note 4-f. A portion of the aforementioned balances (approximately 37%) had been invoiced to customers, mainly in the euro area. At December 31, 2005, the main balances receivable, due from Renfe and Il Comune Di Roma, were in the amounts of €22,375 thousand and €26,311 thousand respectively. The balance of "Trade receivables-in foreign currencies" included mainly the accounts receivables relating to the work performed for Algerian Railway Company (SNTF) and Sacramento Regional Transit, in the amounts of €15,316 thousand and €2,725 thousand, respectively.

14 Short-term investments

The breakdown of this account at December 31, 2005 and 2004 was as follows:

	Euros	
	12.31.05	**12.31.04**
Term deposits	30,082,884	21,947,200
Foreign currency deposits	2,414,068	999,389
Other	23,117	284,590
Rights under the share-ownership scheme (Note 10)	1,510,384	703,870
Provisions (Note 10)	(478,464)	(255,620)
	33,551,989	23,679,429

15 Equity

a) Capital stock of the Parent Company

At December 31, 2005, the Parent Company's issued capital consisted of 3,428,075 fully subscribed and paid book-entry shares of €3.01 par value each, all of which are listed on the stock exchange.

The companies or shareholder entities holding more than 10% of the Parent Company's issued capital at December 31, 2005, were as follows:

	% of Ownership
Cartera Social, S.A. (Notes 10 and 14)	(*) 24.55 %
Bilbao Bizkaia Kutxa	15.63 %
Gipuzkoa Donostia Kutxa	10.99 %

(*) The shareholders of this company are also employees of the Parent Company (Note 10).

On June 7, 2003, the Shareholders' Meeting resolved to empower the Board of Directors of the Parent Company to increase share capital by up to €5,159,253 within five years at one or several times, respecting the pre-emptive subscription right. This authorization has not yet been used. At the Shareholders' Meeting held on June 4, 2005, also empowered the Board of Directors to acquire treasury shares over a period of 18 months commencing on that date. As of the date of preparation of these consolidated financial statements, this acquisition had not been performed.

b) Share premium

The revised Corporations Law expressly allows for the balance of the share premium account to be used to increase capital and establishes no restriction as to its use.

c) Revaluation reserve

The variations in the revaluation reserve in 2005 and 2004 were as follows:

	Thousands of euros				
	01.01.04	**Changes in market value**	**12.31.04**	**Changes in market value**	**12.31.05**
Revaluation of property, plant and equipment:					
Land (Note 3)	28,517	—	28,517	—	28,517
Revaluation reserve Law 9/1983	7,954	—	7,954	—	7,954
Revaluation reserve Guipúzcoa Decree 13/1991	11,379	—	11,379	—	11,379
Revaluation reserve Guipúzcoa Regulation 11/1996	8,701	—	8,701	—	8,701
	56,551	**—**	**56,551**	**—**	**56,551**

Revaluation reserves 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 recorded losses and to increase issued capital, or 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.

d) 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 issued capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of increased share capital. Exception in the above circumstances, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, and then only if other reserves are insufficient for this purpose.

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

The detail of the contribution of the consolidated companies and companies accounted for by the equity method to the reserves and results shown in the consolidated balance sheet at December 31, 2005 and 2004 and to consolidated profit for 2005 and 2004 are as follows:

	Euros			
	2005		2004	
	Reserves	Results	Reserves	Results
CAF, S.A.	90,531,895	13,572,150	82,363,334	11,874,753
CAF México, S.A. de C.V.	238,271	1,934,585	168,852	65,449
CAF Brasil Ind. E C., S.A.	(30,500)	1,891,308	477	491,458
CAF Argentina, S.A.	214,853	300,685	(7,461)	293,776
CAF USA, Inc.	681,893	98,010	(1,081)	537,888
CAF Irlanda, Ltda.	(547)	143,003	—	(547)
CAF I+D subgroup	436,354	257,097	143,844	339,681
Sermanfer subgroup	265,246	200,802	50,763	201,284
Inversiones en Concesiones Ferroviarias S.A.	212,979	2,937	139,193	73,805
Urbanización Parque Romareda, S.A.	46,121	7,449	42,869	3,252
Sab Ibérica, S.A.	304,854	154,766	354,949	163,406
CAF Italia, S.R.L.	—	(4,384)	—	—
Ferrocarriles Suburbanos, S.A. de C.V.	—	(123,751)	—	—
Constructora de Ferrocarril Suburbano, S.L.	—	(9,297)	—	—
Construcciones Ferroviarias CAF-Santana, S.A.	—	(246,023)	—	—
Construcciones Ferroviarias de Madrid, S.L.	—	(35,951)	—	—
Other	(380)	—	8,495	(6,082)
A.A.I. CAF Transit, LLC	(*)	(*)	(*)	(*)
	92,901,039	18,143,386	83,264,234	14,038,123

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

f) Restricted and non-disposable reserves

The individual financial statements of consolidated companies closed at December 31, 2005 and 2004 show reserves in the total amount of approximately €39,406 thousand and €39,376 thousand respectively, which correspond to the legal reserve, revaluation reserve, capital depreciation reserve, and other reserves that are classified as either restricted or non-disposable.

Given the value of the Parent Company's unrestricted reserves at December 31, 2005, and the balance of unamortized development costs (see Note 8), there are no restrictions on the distribution of dividends.

g) Translation differences

The breakdown of the “Translation Differences” caption as of December 31, 2005 and 2004, is as follows:

	Euros	
	12.31.05	**12.31.04**
CAF México, S.A. de C.V.	367,537	(38,646)
CAF Brasil Ind. e C., S.A.	726,394	19,669
CAF Argentina, S.A.	76,770	(92,991)
CAF USA, Inc.	(1,905)	68,827
CAF Irlanda, Ltda.	971	(7)
Sermanfer subgroup	(6,077)	(16,140)
	1,163,690	**(59,288)**

h) Equity adjustments due to changes in fair value

The balance of this reserve reflects adjustments made to the fair value of derivative financial instruments that are designated as cash flow hedges.

i) Minority interests

The detail of the “Equity – Minority Interests” caption of the accompanying consolidated balance sheet for 2005 and 2004 is as follows:

	Euros
Balance at 01.01.04	1,879,346
Profit (loss) attributable to minority interests	62,822
Inclusions in the Consolidated Group	16,458
Balance at 12.31.04	**1,958,626**
Profit (loss) attributable to minority interests	36,828
Inclusions in the Consolidated Group	663,171
Balance at 12.31.05	**2,658,625**

16 Other non-current financial liabilities

Under its Program to Foster Research and Technology (PROFIT), the Spanish Ministry of Science and Technology granted the Group financial aid to conduct research and development projects carried out between 2000 to 2005. This aid, which is recognized on the effective date of receipt or, if applicable, when collected by the coordinator of the joint project, consists of:

– Grants 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 ten years.

These subsidies, which in the event of the R & D investments projected for these projects not being achieved must be refunded with interest.

The variations in the account balance in 2005 and 2004 were as follows:

	Euros
	Ministry of Science and Technology
Balance at 01.01.04	**46,065,292**
Additions	21,684,510
Transfers to short term (Notes 20 and 21)	(2,110,247)
Balance at 12.31.04	**65,639,555**
Additions	1,939,636
Transfers to short term (Notes 20 and 21)	(5,942,154)
Balance at 12.31.05	**61,637,037**

The short-term payables are detailed in Notes 20 and 21.

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 Group recognized €5,826 thousand (€6,137 thousand at December 31, 2004) under "Trade and other receivables" caption and €20,763 thousand (€20,339 thousand at December 31, 2004) under "Trade and other payables" caption to reflect amounts receivable from and payable to third parties in connection with joint projects.

As of December 31, 2005, the maturities for the coming years were as follows:

	Thousands of Euros
2007	6,659
2008	7,603
2009	7,776
2010	7,863
2011 and subsequent years	31,736
	61,637

At December 31, 2005 and December 31, 2004, the Group also recorded €548 thousand and €912 thousand respectively under "Other non-current financial liabilities" caption to cover amounts payable to external funds in fulfillment of its statutory and contractual obligations in respect of employees (see Note 4-k).

17 Payable to credit institutions

At December 31, 2005 consolidated Group companies had credit facilities with various banks up to a limit of €187,549 thousand, against which no material amounts had been drawn on that date.

18 Derivative financial instruments

The CAF Group uses derivative financial instruments to hedge against the risks to which its activities, operations and future cash flows are exposed, mainly as a result of fluctuations in foreign currency exchange rates (see Note 4-d). The CAF Group uses derivatives to hedge exchange rates and thereby reduce the potential adverse effects that fluctuations could have on future cash flows associated with operations and loans in currencies other than the functional currency of the company concerned.

The breakdown of the balance recorded for derivative financial instruments in the consolidated balance sheet at December 31, 2005 is as follows:

	Euros	Maturity (in foreign currency) (*)		
	12.31.05	**2006**	**2007**	**2008 and subsequent years**
Hedges (see Note 10):				
US dollar exchange rate hedges	5,417,091	44,101,808	13,405,120	1,725,000
Sterling exchange rate hedges	253,327	4,370,859	—	—
Yen exchange rate hedges	(1,975,476)	8,892,852,000	4,211,426,000	8,540,325,003
Euros exchange rate hedges	482,347	6,495,645	—	—
Swiss Franc exchange rate hedges	(172,370)	(6,989,975)	—	—
Other currency exchange rate hedges	(14,350)	—	—	—
	3,990,569			

(*) Exchange rate hedges net of currency purchases are shown as payables.

In 2005 the CAF Group recognized in income a charge of €3 thousand in respect of the ineffective part of cash flow hedges carried out.

19 Deferred tax

As of December 31, 2005, 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 Group was subject to no tax inspections in 2005.

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 32.6% was applied in 2005.

The reconciliation of the Parent Company's income per books for 2005 and 2004 to the taxable income for corporate income tax purposes is as follows:

	Thousands of Euros	
	12.31.05	**12.31.04**
Income for the year per books (before tax)	17,805	15,660
Permanent differences, net (Note 4-l)	6,719	1,117
Net increases and decreases due to timing differences and accelerated depreciation (Notes 8, 10 and 20)	6,034	3,759
Taxable income	30,558	20,536

The difference between the tax expense recorded in 2005 and the tax that the Company will be required to be pay in respect of FY2005 is recognized in deferred tax assets and deferred tax liabilities on the accompanying consolidated balance sheet and consists of the following elements:

– Temporary differences arising from the difference between the carrying value of certain assets and their tax base. The most significant differences are those arising from derivative valuations and asset revaluations.

– Timing differences corresponding to 32.6% of the provision for share ownership rights and to provisions that were not tax deductible in the year in which they were recorded.

– Timing differences corresponding to 32.6% of the amount by which the amortization and depreciation charge recorded for tax purposes exceeds the charge recorded for accounting purposes due to the tax benefits deriving from unrestricted and accelerated amortization and depreciation provided for in Guipúzcoa Regulations 6/1988, 7/1996 and 11/1993.

The detail of these balances is as follows:

	Thousands of euros	
	12.31.05	**12.31.04**
Deferred tax assets:		
Non tax deductible provisions	2,584	684
Share ownership scheme (Note 10)	1,409	404
Start-up expenses	216	23
Cash flow hedges (Note 18)	827	—
	5,036	**1,111**
Deferred tax liabilities:		
Unrestricted and accelerated depreciation (Note 8)	4,132	2,560
Cash flow hedges (Note 18)	503	—
Revaluation of land (Note 3)	13,730	13,730
	18,365	**16,290**

The Group has also recorded tax assets of €4,793 thousand, of which €4,411 thousand have been capitalized under "Non-current financial assets – loans and other receivables" caption on the accompanying consolidated balance sheet for the year ended December 31, 2005. In addition, the differences between the tax expense estimated and tax expense paid in respect of 2005 gave rise to a €916 thousand reduction in the final value of the tax assets recognized and a reduction of approximately €484 thousand in the actual expenses. Lastly, the combined impact of other items on expenses for the year was €106 thousand.

In addition to those explained in Note 4-m, the Parent Company generated tax assets that will be capitalized in the extent that they can be applied in subsequent years pursuant to the limits and terms established under current legislation.

The Parent Company's activities are subject to Guipúzcoa provincial tax laws.

Certain articles of Guipúzcoa regulations and certain tax benefits regulated by the Guipúzcoa provincial government were appealed against at various court instances and some of these rulings have now been overturned.

The Parent Company's Directors do not expect any additional tax liability to arise from the years open for inspection or the matters referred to above.

20 Tax receivables and taxes payable

The detail of the "Tax Receivables" and "Taxes payable" captions as of December 31, 2005 and 2004 was as follows:

	Thousands of euros							
	12.31.05				12.31.04			
	Assets		Liabilities		Assets		Liabilities	
Concept	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**
Social security taxes	—	540,532	—	3,094,412	—	211,912	—	3,076,530
Regular taxes								
Value Added Tax (VAT)	—	8,313,786	—	15,821,050	338,678	7,370,564	—	10,584,231
Other	—	598,262	—	195,325	1,629	467,875	—	166,679
Personal income tax withholdings	—	27,852	—	2,989,494	—	—	—	2,879,449
Corporate income tax (Note 4-m)	—	1,653,449	—	6,448,720	—	643,012	—	4,082,300
Tax relief and tax credits pending application (Notes 4-m and 10)	4,685,000	1,315,000	—	—	5,229,000	771,000	—	—
	4,685,000	**12,448,881**	**–**	**28,549,001**	**5,569,307**	**9,464,363**	**–**	**20,789,189**

21 Short-term provisions

The variations in 2005 and 2004 (see Note 4-o) were as follows (in euros):

	Guarantee services, assistance, penalties, etc. (Note 4.o)	Other Provisions (Notes 4.m, 4.o, 10, 16 and 20)
Balance at 01.01.04	**11,362,749**	**12,211,372**
Net additions to provisions (Note 4-o)	2,462,446	123,954
Transfers (Notes 9, 10 and 16)	(252,413)	(1,951,610)
Balance at 12.31.04	**13,572,782**	**10,383,716**
Net additions to provisions (Note 4-o)	7,564,800	8,157,559
Transfers (Notes 10 and 16)	—	(158,373)
Balance at 12.31.05	**21,137,582**	**18,382,902**

22 Expenses

a) Raw materials and other consumables used

	Euros	
	2005	**2004**
Purchases (*)	380,704,636	295,105,108
Work performed by other companies	8,514,510	17,601,803
Inventory variation	7,043,113	(28,552,684)
	396,262,259	**284,154,227**

(*) 87% in euros and the remainder basically in US dollars.

b) Other operating expenses

The fees due to the auditors of the individual and consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. amounted to €358 thousand. Of this sum, fees payable in respect of the annual audits of companies audited by firms belonging to the Deloitte worldwide organization amounted to €302 thousand. In addition, the Group was billed €173 thousand in respect of fees for other professional services of this sum, €153 thousand by Deloitte organization.

c) Environmental information

The main investments made in systems, equipment and facilities designed for environmental protection and improvement and included in property, plant and equipment (see Note 9) came to €291 thousand in 2005 and €1,009 thousand in 2004.

The Group was awarded no environmental subsidies in 2005. In 2004 environmental subsidies obtained amounted to €4 thousand.

At December 31, 2005, there were no lawsuits pending or contingencies outstanding 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 included no provisions in this connection.

23 Average number of employees and personnel expenses

The average headcount in 2005 and 2004 was as follows:

Professional category	Average no. of employees	
	2005	2004
Employees	1,150	1,157
Manual workers	2,688	2,689
Total (*)	**3,838**	**3,846**

(*) At December 31, 2005 and 2004 there were 3,864 and 3,855 permanent and temporary employees, respectively.

The breakdown of personnel expenses (in euros) is as follows:

	2005	2004
Wages and salaries	117,632,976	111,896,927
Social security costs	34,410,283	33,110,223
Other expenses (Notes 4-l and 4-o)	13,837,502	7,148,081
	165,880,761	**152,155,231**

24 Information on the Board of Directors

a) Directors' compensation and other benefits

In 2005 the Parent Company recorded approximately €674 thousand of compensation and attendance fees earned by its Directors. Directors of Group subsidiaries received no remuneration in this connection. At December 31, 2005 the Parent Company and its subsidiaries had granted no advances, guarantees or loans to current or former directors and, except as indicated in Note 4-k, the Group had no pension or life insurance commitments in their respect.

b) Detail of holdings in companies engaging in similar activities and performance, as independent professionals or employees, of similar activities, pursuant to Article 127 ter.4 of Spanish Corporations Law

The members of the Board of Directors and their representatives have held the following interests in the capital of companies engaging in activities that are identical, similar or complementary to the activity that constitutes CAF's corporate purpose:

– Caja de Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián (Gipuzkoa Donostia Kutxa) has declared a 95% ownership interest in "Alquiler de Trenes, AIE", a company incorporated along with CAF (see Note 10), and stated that it possesses no other holding in the capital of any other company with an identical, similar or complementary activity.

The other members of the Board of Directors have no interests in the share capital of companies engaging in identical, similar or complementary activities, except for those held by certain directors in exercise of duties performed on behalf of the Parent Company (Note 10), which are detailed below:

Company	Business line	Positions held or duties fulfilled in the Company indicated	Name
CAF I+D, S.L. (sole shareholder company)	Research and development	Sole Director	José María Baztarrica
Construcciones Ferroviarias CAF-Santana, S.A.	Manufacture of railroad equipment	Chairman	José María Baztarrica
Construcciones Ferroviarias CAF-Santana, S.A.	Manufacture of railroad equipment	Managing Director	Alejandro Legarda
Construcciones Ferroviarias de Madrid, S.L. (sole shareholder company)	Manufacture of railroad equipment	Sole Director	José María Baztarrica
Ferrocarriles Suburbanos, S.A. de C.V.	Provision of passenger transport services	Chairman	Alejandro Legarda
Constructora del Ferrocarril Suburbano, S.L.	Operational design and equipment of railroad lines	Chairman	Alejandro Legarda
Urbanizaciones Parque Romadera, S.A. (sole shareholder company)	Ownership of shares	Sole Director	Alejandro Legarda
Sasismag, S.A. (sole shareholder company)	Preparation of operating manuals	Sole Director	Andrés Arizcorreta
Traintic, S.L.	Manufacture of electronic products	Sole Director	Andrés Arizcorreta
Ipar Sistemas 2002, S.L.	Holding company	Sole Director	Andrés Arizcorreta
CAF USA, Inc.	Manufacture of railroad equipment	Chairman	José María Baztarrica
CAF México, S.A. de C.V.	Manufacture and sale of railroad equipment	Chairman	José María Baztarrica
CAF Argentina, S.A.	Maintenance of railroad equipment	Chairman	José María Baztarrica
CAF Irlanda, Ltda.	Maintenance of railroad equipment	Sole Director	José María Baztarrica
CAF Italia, S.R.L.	Maintenance of railroad equipment	Sole Director	José María Baztarrica
Constructora Mexicana del Ferrocarril Suburbano, S.A. de C.V.	Operational design and equipment of railroad lines	Chairman	Alejandro Legarda

25 Remuneration of senior executives

As the Parent Company's General Managers are also members of the Board of Directors, the associated personnel costs (salaries, payments in kind, social security payments, etc) are as detailed in the previous note.

In 2005 there were no other transactions with directors outside of the ordinary course of its business.

26 Sureties, guarantees and other contingent liabilities

At December 31, 2005, sureties in the amount of €876,861 thousand had been provided to the Group by financial institutions, in favor of its clients, in guarantee of the performance of commercial transactions. Of this amount, €123,963 thousand relates to guarantees for refundable grants and advances awarded by the Ministry of Science and Technology (see Note 16) and other public-sector institutions.

In 2005 CAF Group identified no material contingent liabilities.

27 Events subsequent to year-end

At December 31, 2005 the Group had a firm order book, net of prebillings, of approximately €2,697,479 thousand (see Note 12). At February 28, 2006, the value of its order book was €2,730,850 thousand.

28 Explanation added for translation to English

These consolidated financial statements are presented on the basis of International Financial Reporting Standards (IFRS), as adopted by the European Union. Certain accounting practices applied by the Company that conform with IFRS may not conform with other generally accepted accounting principles.

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
GREGORIO ROJO GARCÍA	Director for Vital Kutxa
ALEJANDRO LEGARDA ZARAGÜETA	Director
ANDRÉS ARIZCORRETA GARCÍA	Director
LUIS MIGUEL ARCONADA ECHARRI	Director
JOSÉ ANTONIO MUTILOA IZAGIRRE	Director for Gipuzkoa Donostia Kutxa
FERMÍN ARRESE ARRATIBEL	Director
XABIER GARAIALDE MAIZTEGUI	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, 2005 by the Board of Directors at its meeting on March 28, 2006 (the consolidated financial statements for the year ended December 31, 2004 had been duly formalized in the past), the Directors have signed this document, consisting of 59 sheets numbered sequentially from 1,620 through 1,678, 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 28, 2006

Approved by

THE CHAIRMAN	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 10 2006, at first call, and, if appropriate, at the same time and place the following day.

First. Examination and approval, if appropriate, of the 2005 financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A., and of the 2005 consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries, together with the management report.

Second. Approval of the proposal for the distribution of 2005 income, with a distribution of dividends for a gross amount of €1.60 per share.

Third. Application of the consolidated tax regime.

Fourth. Re-election of Directors.

Fifth. Authorize the Company' 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 4 June 2005.

Sixth. Re-election of auditors.

Seventh. Amend the following articles of the corporate by-laws: Article 16 (Calling the Shareholders' Meeting), Article 22 (Public granting of proxies), Article 26 (Right to information), for purposes of adapting them to the legislation in force. Amendment of Article 37 bis (to enable an Advisory Committee to be created). Elimination of the transitional provisions of the by-laws.

Eighth. Authorize the Board of Directors, with the scope necessary, to record in 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 o written requirements, and to perform any acts necessary to record these resolutions in the mercantile register.

Ninth. Approval of the minutes of the meeting.

PROPOSED DISTRIBUTION OF INCOME

Distribution of income after taxes of 14,066 thousands of Euros: 5,485 thousands of Euros for dividends, 8,581 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
GREGORIO ROJO GARCÍA	Director for Vital Kutxa
ALEJANDRO LEGARDA ZARAGÜETA	Director
ANDRÉS ARIZCORRETA GARCÍA	Director
LUIS MIGUEL ARCONADA ECHARRI	Director
JOSÉ ANTONIO MUTILOA IZAGIRRE	Director for Gipuzkoa Donostia Kutxa
FERMÍN ARRESE ARRATIBEL	Director
XABIER GARAIALDE MAIZTEGUI	Director
ALFREDO BAYANO SARRATE	Secretary

At 28 March 2006 the Board of Diretors held 24.83% of the capital stock.

Supplementary Information 2001-2005

Balance Sheets
Statements of Income
Stock market Information

Balance Sheets

as of December 31st 2005, 2004, 2003*, 2002* and 2001* (Euros)

Assets

	2005	2004	2003*	2002*	2001*
Non-current assets:					
Start-up expenses	—	—	45,288	119,728	61,207
Other intangible assets, net	12,632,530	14,119,310	17,596,420	14,205,971	11,131,958
Property, plant, and equipment, net	146,408,693	138,020,380	81,420,454	75,788,292	70,138,155
Investments in associates	728,812	847,250	439,778	469,099	443,638
Non-current financial assets	27,704,769	19,439,557	16,610,012	8,554,405	15,107,033
Deferred tax assets	5,035,632	1,111,286	1,730,018	2,023,464	2,118,526
Total non-current assets	192,510,436	173,537,783	117,841,970	101,160,959	99,000,517
Current assets:					
Deferred charges	—	—	—	9,959,326	7,339,782
Inventories	67,389,443	15,789,726	29,452,853	64,218,845	78,209,717
Trade and other receivables	324,952,312	432,941,127	319,301,588	260,370,470	170,079,351
Receivable from associated companies	3,433	17,896	932,444	7,905,597	8,015,290
Other current financial assets	1,575,711	603,464	2,773,568	3,091,648	3,119,541
Derivative financial instruments	5,672,599	—	—	—	—
Short-term investments	33,551,989	23,679,429	49,815,394	3,766,493	4,603,170
Tax receivables	12,448,881	9,464,363	5,718,570	4,623,438	1,096,132
Cash and cash equivalents	1,903,693	1,434,482	3,226,237	810,362	2,032,972
Other current assets	580,316	456,633	315,002	761,531	1,487,024
Total current assets	448,078,377	484,387,120	411,535,656	355,507,710	275,982,979
Total Assets	640,588,813	657,924,903	529,377,626	456,668,669	374,983,496

* Financial statements prepared under the previous accounting regulations (Spanish GAAP) and presented using the format of the current accounting regulations (IAS) for ease of comparison.

Equity and Liabilities

	2005	2004	2003*	2002*	2001*
Equity:					
Attributable to the Parent Company					
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	11,863,347	11,863,347
Revaluation reserve	56,551,093	56,551,093	28,034,368	28,034,368	28,034,368
Reserves at fully consolidated companies and companies accounted for by the equity method	92,901,039	83,264,234	77,949,849	74,390,286	68,375,891
Translation differences	1,163,690	(59,288)	(2,750,817)	(4,367,890)	(1,599,407)
Equity adjustments due to changes in fair value	(984,460)	—	—	—	—
Net profit for the year	18,143,386	14,038,123	11,605,548	9,838,103	9,753,152
Equity attributable to the Parent Company	**189,956,601**	**175,976,015**	**137,020,801**	**130,076,720**	**126,745,857**
Minority interests	**2,658,625**	**1,958,626**	**1,879,346**	**2,849,061**	**1,714,994**
Total equity	**192,615,226**	**177,934,641**	**138,900,147**	**132,925,781**	**128,460,851**
Non-current liabilities:					
Deferred revenues	—	—	**5,014,021**	**16,246,338**	**12,618,369**
Long-term provisions	**1,362,416**	**1,225,961**	**830,969**	**1,323,572**	**2,282,121**
Payable to credit institutions	**37,307**	**82,035**	—	—	—
Derivative financial instruments	**221,052**	—	—	—	—
Other long-term liabilities	**62,185,062**	**66,551,837**	**47,363,700**	**37,752,011**	**24,195,551**
Deferred tax liabilities	**18,365,236**	**16,290,365**	**2,432,730**	**1,891,966**	**1,055,581**
Other non-current liabilities	**1,065,000**	**103,337**	**2,104,850**	—	—
Total non-current liabilities	**83,236,073**	**84,253,535**	**52,732,249**	**40,967,549**	**27,533,253**
Current liabilities:					
Payable to credit institutions	**184,805**	**148,653**	**47,197**	**322,839**	**1,619,674**
Derivative financial instruments	**70,943**	—	—	—	—
Other current financial liabilities	**16,031,736**	**11,326,433**	**13,939,818**	**1,933,600**	—
Payable to associated companies	**595,993**	**2,832,918**	**1,329,363**	**324,306**	**106,331**
Trade and other payables					
Advances received on orders	115,849,837	172,906,288	133,407,850	133,314,097	72,083,919
Trade payables purchases and services	153,203,784	154,280,807	140,998,531	95,176,233	98,139,994
	269,053,621	**327,187,095**	**274,406,381**	**228,490,330**	**170,223,913**
Short-term provisions	**39,520,484**	**23,956,498**	**23,574,121**	**16,666,957**	**16,634,874**
Other payables					
Taxes payable	28,549,001	20,789,189	7,023,780	11,030,541	11,503,137
Other current liabilities	10,730,931	9,495,941	12,410,549	7,760,428	6,283,094
	39,279,932	**30,285,130**	**19,434,329**	**18,790,969**	**17,786,231**
Total current liabilities	**364,737,514**	**395,736,727**	**332,731,209**	**266,529,001**	**206,371,023**
Equity and liabilities	**640,588,813**	**657,924,903**	**529,377,626**	**456,668,669**	**374,983,496**

Statements of Income

as of December 31st 2005, 2004, 2003*, 2002* and 2001*

(Euros)

(Debit) Credit

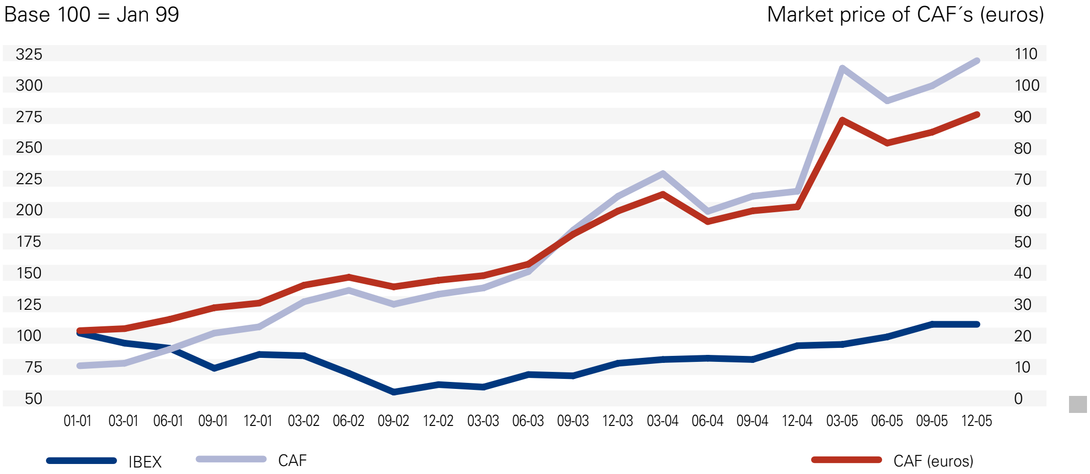
	2005	2004	2003*	2002*	2001*
Continuing operations:					
Net sales	680,798,488	578,012,441	495,479,207	392,488,865	386,845,107
+/– Change in finished goods and work-in-progress inventories	268,750	(52,454,882)	(79,804,672)	(10,521,520)	(2,231,281)
Raw materials and other consumables used	(396,262,259)	(284,154,227)	(195,072,687)	(195,035,331)	(209,744,906)
Other operating revenues	886,785	751,638	1,685,542	3,369,288	3,474,090
Personnel expenses	(165,880,761)	(152,155,231)	(133,177,214)	(118,095,336)	(104,227,928)
Other operating expenses	(79,908,049)	(57,283,347)	(60,323,417)	(46,442,798)	(48,580,139)
Depreciation and amortization expenses	(16,599,384)	(15,178,859)	(13,458,120)	(11,909,667)	(11,372,556)
Operating income	**23,303,570**	**17,537,533**	**15,328,639**	**13,853,501**	**14,162,387**
Financial revenues	4,883,652	2,989,354	3,323,119	5,702,974	4,228,752
Financial expenses	(5,768,806)	(3,063,815)	(4,535,016)	(7,313,922)	(6,280,949)
Financial loss	**(885,154)**	**(74,461)**	**(1,211,897)**	**(1,610,948)**	**(2,052,197)**
Share in the income of companies accounted for by the equity method	204,558	216,954	213,501	242,822	217,362
Other gains and losses (net)	26,547	(215,300)	73,186	83,488	47,101
Income before tax	**22,649,521**	**17,464,726**	**14,403,429**	**12,568,863**	**12,374,653**
Corporate income tax	(4,469,307)	(3,363,781)	(2,757,675)	(2,606,613)	(2,620,827)
Income from continuing operations	**18,180,214**	**14,100,945**	**11,645,754**	**9,962,250**	**9,753,826**
Income for the year	**18,180,214**	**14,100,945**	**11,645,754**	**9,962,250**	**9,753,826**
Attributable to:					
Shareholders of the Parent Company	18,143,386	14,038,123	11,605,548	9,838,103	9,753,152
Minority interests	36,828	62,822	40,206	124,147	674
Earning per share (in euros)					
Basic	5.29	4.10	3.39	2.87	2.85
Diluted	5.29	4.10	3.39	2.87	2.85

* Financial statements prepared under the previous accounting regulations (Spanish GAAP) and presented using the format of the current accounting regulations (IAS) for ease of comparison.

Stock market information

As of December 31, 2005, 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



	2005*	2004*	2003	2002	2001
Stock market capitalization					
Figures as of December 31	312,983,248	212,540,650	202,599,233	127,695,794	102,842,250
Per-share data					
Net earnings per share	5.29	4.10	3.39	2.87	2.85
Net income before taxes	6.61	5.09	4.20	3.67	3.61
Dividend per share	1.60	1.37	1.09	1.09	1.09
Per-share net book value	55.41	51.33	39.97	37.94	36.97
Stock market ratios					
PER	15.38	14.60	13.56	12.58	9.49
Average price/EBITDA	6.96	6.28	5.42	4.69	3.83
MV/BV (average price/book value)	1.47	1.16	1.15	0.95	0.73
Dividend yield	1.97%	2.29%	2.37%	3.02%	4.05%
Pay-out	30.23%	33.46%	32.20%	37.98%	38.44%

* 2004 and 2005 consolidated data, IAS.

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