2006

Annual Report

CAF

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

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

Annual Report **2006**

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

This publication, which is also published in Basque, French and Spanish, 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,

I am writing to you once again to present the Directors' Report and Financial Statements for 2006 to be approved by shareholders at the Annual General Meeting.

2006 can be described as a highly positive year for CAF. The notable increase in sales, together with an even greater rise in profit and a record backlog at 31 December 2006, allow us to conclude that 2006 was a good year for the Company.

I would like to describe the most significant events of 2006 and subsequently comment briefly on the outlook for the Company in the near future.

Group profit after tax amounted to EUR 34.7 million, with profit before tax reaching EUR 42.5 million, up 88% on 2005. EBITDA was EUR 61.8 million, a notable increase on the EUR 40.1 million recorded in 2005. Cash flow before tax stood at EUR 60.5 million.

In view of these figures we propose to the shareholders at the Annual General Meeting the distribution of a gross dividend of EUR 3.2 per share, double that of the previous year.

In 2006 the Group's sales reached EUR 805.7 million, up 18.3% on 2005.

We have continued to work intensely in commercial activities, generating a backlog at year-end of EUR 3,315 million, up 23% on 2005.

With regard to the Spanish market, the most significant awards and contracts in 2006 were as follows: 107 regional diesel or electric trains prepared to subsequently incorporate the Brava variable width system, 40 third generation Civia suburban trains for Renfe, 14 trains for the new underground in Málaga and 9 additional trains for Ferrocarrils de la Generalitat de Catalunya, thus consolidating CAF's position as market leader. Also noteworthy are the agreements with Renfe and other authorities with respect to maintenance, a business segment that has expanded considerably in comparison with previous years.

Sales activity has also been intense abroad with significant contracts such as the manufacture of 14 train units for the Algiers underground, the extension of the contract to manufacture trains for the Rome underground (6 new units), and the contract to refurbish light rail units in Pittsburgh.

Particularly worthy of note in this respect is the progress made in the project to build infrastructure and mobile material for the public rail service concession on the new Cuautitlán-Buenavista line in Mexico State. This contract represents a challenge for the Company since it entails leading and executing a project with an overall investment of EUR 400 million, involving the construction of all the infrastructure and equipment required by the new public transport system and the subsequent operation of this system for 30 years.

The performance of rolling stock in the year was highly positive with a significant increase in sales of 81% with respect to 2005, especially in the export market, where contracts executed in the US, Asia and Europe accounted for 70% of the total amount.

The most noteworthy deliveries in Spain in 2006 were the entry into service of Renfe's trains with the Brava variable width system, which operate on the Madrid-Barcelona line; the Civia suburban train units, also for Renfe, and diverse train series for the Madrid, Barcelona, Seville and Palma undergrounds; the Vélez-Málaga tram and Ferrocarrils de la Generalitat de Catalunya.

As far as the international market is concerned, trains were delivered for the Rome underground, and intercity and suburban trains were delivered to Irish Rail.

CAF's backlog at 31 December 2006 is the highest in the Company's history, enabling us to face the next few years with a high level of occupancy at our plants.

The data available for the first few months of 2007 suggest that this trend of increased sales and profit with respect to 2006 will be consolidated.

However, we must be aware of the ongoing need to improve in key competitive areas such as technological innovation, productivity and costs in order to successfully meet the challenges posed by our industry.

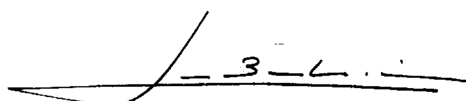
Our activity is performed in a growing global market that enables us to take part in increasingly more complex projects with greater demands from our customers, which should serve to increase our capacity to provide solutions for future demands. With regard to Spain, we must take advantage of the commitment to rail transport represented by the Infrastructure Strategic Plan (PEIT) and the opportunities arising from the deregulation of rail freight transport.

I would like to thank all CAF's employees for another year of hard work and dedication, undoubtedly a key factor in the obtainment of the aforementioned positive results and the sound performance of the Company, and I trust in their commitment, optimism and effort to successfully face the challenges of the future.

I would particularly like to draw attention to the unanimous decision of the Board of Directors, of which I am the Chairman, to appoint Andrés Arizkorreta as CAF's Chief Executive Officer in recognition of his invaluable work and as proof of the total faith we have in him after his long career at CAF.

I would like to end this letter by thanking the Company's shareholders for their trust and support during another year, which is undoubtedly the greatest incentive to continue working with even more determination, if possible, in the attainment of our objectives.

Thank you.



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
- Vitoria

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

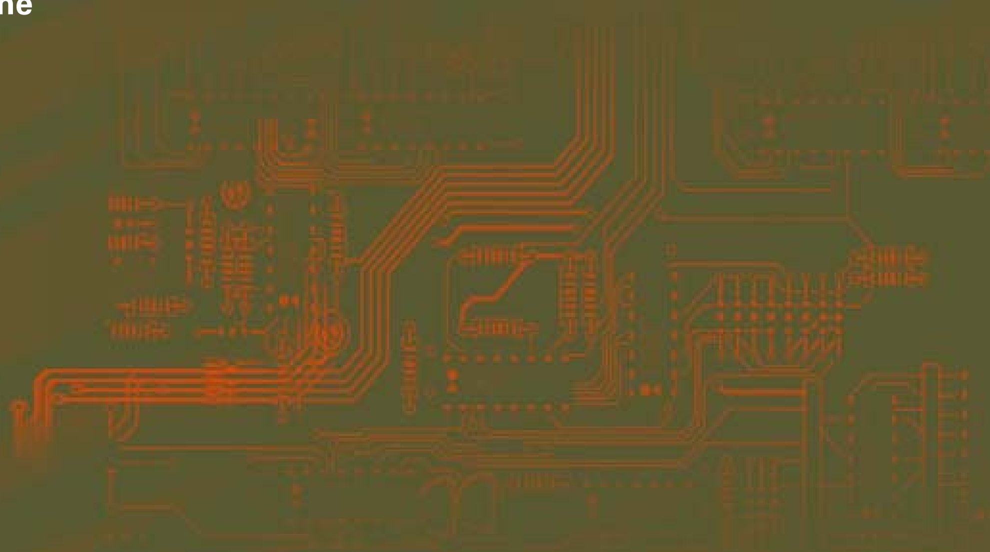
- Tilting System ADR Trains
- Intercity, Push-Pull Service

Passenger Cars

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

CAF, innovation and cutting-edge technology with the guarantee of 100 years' experience.

Directors' Report of the Consolidated Group



Earnings

The income statement has a positive balance of EUR 34,639 thousand after tax, up approximately 91% on 2005.

The CAF Group's earnings for 2006 are as follows:

- Profit after tax amounted to EUR 34,639 thousand, up approximately 91% on 2005.

- The depreciation and amortisation charge of EUR 18,019 thousand, plus the profit for the year before tax, generated a cash flow of EUR 60,538 thousand.

- Revenue totaled EUR 805,727 thousand, up 18% on 2005.

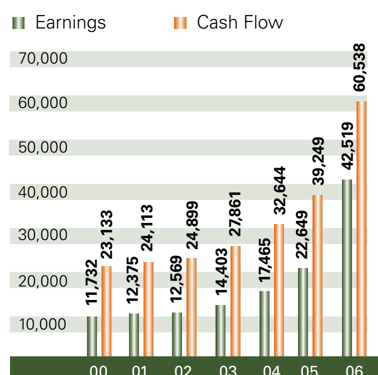
- The order book showed a balance of EUR 3,315,317 thousand at 31 December 2006. This is higher than the 2005 year end figure and will enable the Company to continue its normal business activities.

- The proposed appropriation of Parent earnings, which entails allocating EUR 10,970 thousand of profit after tax to the distribution of a dividend and EUR 31,050 thousand to voluntary reserves, is in line with the prior year's policy, the aim of which is to increase the Compnay's net asset value.

- Assuming the proposed distribution of profit is approved, the Parent's shareholders' equity will be increased by the profit appropriated to reseves to EUR 180,188 thousand.

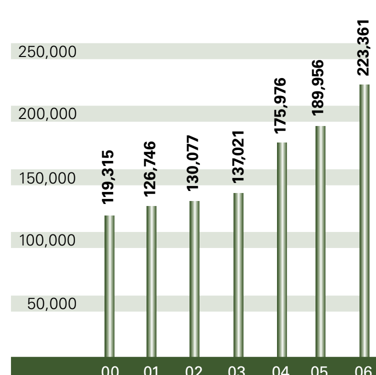
- Lastly, as required by law, CAF declares that neither it nor its subsidiaries purchased or held treasury shares in the course of 2006.

Groups income and cash flow before taxes
(thousand of euros)



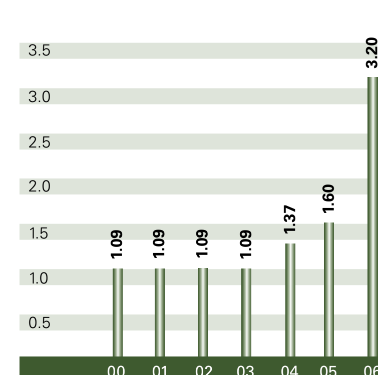
* Consolidated data 2002, 2003
2004, 2005 and 2006 consolidated data, IAS.

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



* Consolidated data 2002, 2003
2004, 2005 and 2006 consolidated data, IAS.

Evolution of dividends/shares
(in euros)



Commercial activity

At 2006 year-end the Company's backlog was EUR 3,315 million…It was awarded a contract to supply 107 trains to RENFE… Contract for and operation of 76 km of suburban line in Mexico City.

In 2006 the Group continued with its intense commercial activity both in Spain, with a highly significant increase, and in terms of exports, having won contracts amounting to EUR 1,424 million, including the contract with Ferrocarriles Suburbanos de México, representing an increase of 53% on 2005. At year-end the backlog amounted to EUR 3,315 million.

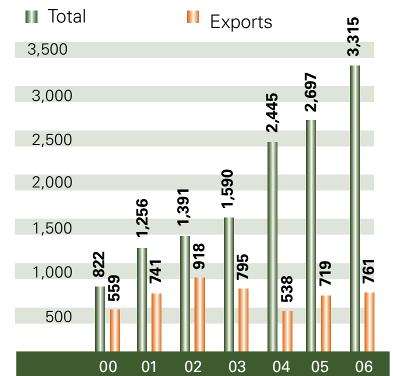
This backlog marks a new record in the history of CAF, which has a market share in Spain of 77%, fruit of the significant investments made in this market.

Noteworthy in the Spanish market was the award of the highest investment in RENFE's history: 107 trains for the Regional Business Unit. This award gave rise to a contract for 50 diesel trains and to a further contract for 23 and 34 electric trains, the latter of which were prepared in order to be able to subsequently incorporate the variable width system. Likewise of note was the contract, also with RENFE, for 40 CIVIA III suburban train units.

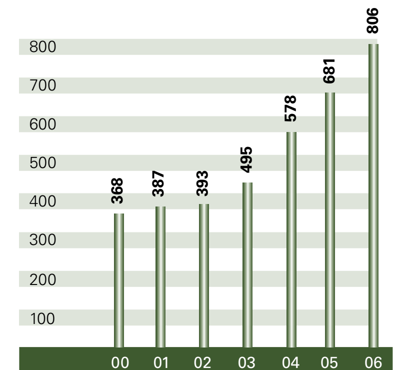
As a result of the foregoing orders, nine units of the 213 series were contracted with Ferrocarrils de la Generalitat de Catalunya (FGC), thereby maintaining our continuity with this important customer.

Within the process of executing new networks, a contract was entered into with Malaga Underground for 14 light underground units (100% low-floor trams) which, together with those of Seville and Vélez-Málaga, places us at the forefront in this type of equipment in the Andalusia region.

Order Book
(million of euros)



Total Sales
(million of euros)



* Consolidated data 2002, 2003
2004, 2005 and 2006 consolidated data, IAS.

Also, in December, as a result of the appropriate call for tender, CAF was awarded the contract to supply 11-low floor tram units in Vitoria. This contract, which will be signed in the current year, will also provide for the special feature of including in the vehicles a traction unit developed with CAF technology. With this contract we have taken a step further in consolidating our position in this market in which an increasing number of Spanish cities are becoming players.

RENFE continues to implement its Infrastructure Strategic Plan (PEIT) and hence, in its 2006-2010 Contract-Programme announced the purchase of 60 new CIVIA suburban train units through the related call for tender with respect to which, in view of the success of the previous units supplied, we expect to obtain a satisfactory outcome.

In the area of exports our activity was consolidated in the Rome and Pittsburg Undergrounds, with the extension of the previous orders by six new trains and 15 units, respectively. In 2006 we maintained our intense commercial activity, submitting a large number of bids in various countries and trusting that they will lead to future contracts.

However, most noteworthy was the award of the concession for the construction and operation of 76 Km of suburban line in Mexico City (26 are under construction), which involves the manufacture and supply of 20 trains.

We are still firming up our maintenance line of business, in which backlog is 26% up on 2005, due mainly to the award of the contract for the maintenance of 107 regional trains and 40 Civias III for RENFE for a period of 14 and 6 years, respectively. Also of note was the 14-year contract for the maintenance of 432 cars of the 3000 series for the Madrid Underground.

The performance of rolling stock in the year was highly positive with a significant increase in contracts of approximately 40%, especially in the foreign market, where contracts executed in the US and penetration into the Indian market were particularly noteworthy.

Variable width high-speed trains, shuttles, intercitys, suburban trains, undergrounds, articulated units, trams.

In 2006 the deliveries were completed of the last 13 8,000 series "S" cars and of the nine 6,000 series trailer cars for the Madrid Underground, 27 passenger cars for Ireland, Iarnród Eireann, five units for the Mexico Underground, two units for the Vélez-Málaga Light Metro, two diesel units for the Republic of Ireland, 2nd contract and two units for Ferrocarrils de la Generalitat de Catalunya, thereby completing the deliveries of vehicles linked to the aforementioned contracts.

Also in 2006 the following deliveries were made: 22 refurbished units for Pittsburgh, six units for the Seville Light Underground, the first unit for the Palma de Mallorca Underground, 17 units for the Rome Underground, 22 units for Line 5 of the Barcelona Underground, five trailer cars and 13 Civia suburban train units for RENFE, the first unit for the Brussels Underground, 21 single-voltage and six dual-voltage 3,000 series units for the Madrid Underground.

Particularly worthy of note in other projects in various phases of development was the commencement of the manufacture of the first units for Line 1 of the Barcelona Underground, the first bodies for the Diesel Trains for Algeria, the manufacture to a shell finish for the 16 self-propelled electric trains for RENFE, the bodies for the Turkey project and of the advanced stage of the manufacture of the trains for the Mexico Suburban System.

Worthy of mention concerning other projects awarded recently was the performance of the engineering activities for the trains for the Algiers Underground, the high-speed trains for Turkey, the high-speed rolling stock for RENFE and for the CIVIA III suburban trains, also for RENFE.

As regards the most recent projects, noteworthy is the start-up and commencement of the engineering activities for the Malaga Light Underground units, 50 regional diesel trains and 57 regional electric trains for RENFE and for the three units for Ferrocarrils de la Generalitat de Catalunya.

The most important manufacturing projects in 2006 were as follows:

Nº OF VEHICLES

"S" car Madrid Underground 8000 series	13
Trailer cars (2MM + 7 TFM) Madrid Underground 6000 series	9
Cars (GC+FC+CC+5SC+SCEND) of passengers for Ireland IE	27
Train (M1+M2+4N+2R+PR) for the Mexico Underground	45
Vélez-Málaga Light Underground Train (A+B+C+D+E)	10
Diesel train (DM1+MDT+MT+DM2), Republic of Ireland, 2nd contract	8
Train (M1+R+M2) Ferrocarrils de la Generalitat de Catalunya, 213 series	6
Unit (A+B), LVR Pittsburgh refurbished (USA)	44
Seville Light Underground Train (A+B+C+D+E)	30
Unit (M+M) for the Palma de Mallorca Underground	2
Train (2RCP+2M1+2M2) for the Rome Underground	102
Unit (MA1+MB1+R+MB2+MA2) Barcelona Underground 5000 series	110
Trailer cars (R) for CIVIA trains	5
Train (A1+A2+A3+A4+A5) CIVIA Suburban Trains for RENFE	65
Train (M+R+N) for the STIB in Brussels	6
Train (M1+R1+S1+S2+R2+M2) for the Madrid Underground 3000 series single voltage	126
Train (M1+S1+R2+M2) for the Madrid Underground 3000 series dual-voltage	24
Cars (B1+B2) CIVIA U.T.F.	2
TOTAL	**634**

BOGIES

With welded steel rack (power car + trailer)	1,094

COMPONENTS

Mounted axles	3,341
Axle shafts	5,977
Wheels	40,808
Brackets	592
Couplers	870
Reduction gear	51

Other supplementary materials manufactured were as follows:

Steel	42,446 tonnes

The repairs carried out included:

Unit (M-R-R-M) 200 series for Euskotren	1
Unit (M-M) diesel train for Mallorca SFM	2
Review of 500 series bogies for the Bilbao Underground	24
Review of bogies for Mallorca SFM	3

Labour force stability continued to grow. Greenhouse gas emissions, in compliance with the Kyoto protocol, were lower than the annual allocation for the year.

The changes in the consolidated Group's labour force in 2006 were as follows:

	Permanent	Total	Annual Average Headcount
12-31-05	3,235	3,864	3,838
12-31-06	3,805	4,141	4,016

The changes arose mainly in the Group's network of investees and subsidiaries, especially in the area of Maintenance. Labour force stability continued to grow.

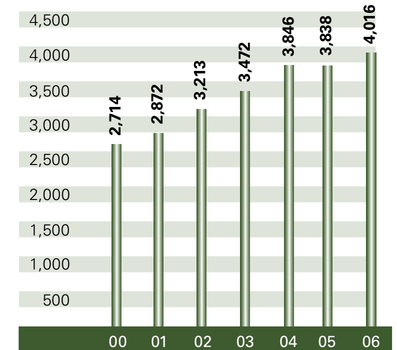
In 2006 the Irún Factory was included in the Environmental Management System Certification.

Greenhouse gas emissions, in compliance with the Kyoto protocol, were lower than the annual allocation for the year.

In the first semester the Regulatory Prevention System Audit was performed and the positive outcome defined the work lines for 2007.

In 2006 the training initiative was maintained, and of particular note were the initiatives aimed at achieving progress in the area of powerful electronics. These initiatives also continued in the training in the version 5 of the CATIA design software, in Welding, Prevention and Environment certification and in the monitoring of the graduate training programs.

Employees
(number of persons)



Investments in 2006

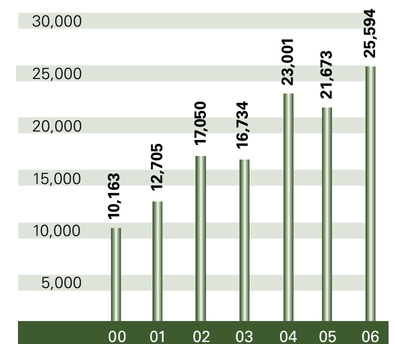
These investments focused mainly on increased production, safety in the workplace and the improvement of environmental conditions.

Significant investments made at our factories in 2006 amounted to EUR 25,594,072, continuing the prior years' rate of investments. These investments focused mainly on increased production, safety in the workplace and the improvement of environmental conditions.

The most representative investments made are as follows:

- The installation of a wheel laminator and a second treatment line in the components section, which will enable a significant increase in our production capacity to be achieved.
- The performance of various investments (paint cabin, welding arcade and adaptation of the finishing assembly lines in Beasain and Irun) in the railway segment, which will increase capacity and productivity so that the existing backlog can be met.
- Renewal and extension of our design system with the inclusion of new work posts and the implementation of Catia 5 in order to enable the system's use in 3D design.
- Lastly, as a result of our expansion, the Group began to address the production needs of the new plants.

Investments
(thousand of euros)



* Consolidated data 2002, 2003
2004, 2005 and 2006 consolidated data, IAS.

CAF leads a consortium that researches technologies to achieve high-speed interoperability in the case of tracks with different signalling, electricity supply and gauge systems (AVI-2015 project). Development and manufacture of traction units.

The AVI-2015 project was included in the CENIT (Spanish National Strategic Consortiums in Technical Research) programme within the Ministry of Industry, Tourism and Trade's Ingenio 2010 initiative, aimed at promoting public and private cooperation in R&D&I. In this project, CAF heads a consortium formed by six companies which will focus their technological development efforts on the research of technologies favouring high-speed interoperability with respect to tracks with different signalling, electricity supply and gauge systems. AVI-2015 is one of the 16 projects approved in the first stage of the CENIT programme.

Of particular interest among the activities commenced during the start-up of the CENIT programme is the collaboration project with ELIOP S.A. for the development of a signalling system under the new ERTMS standard.

With respect to activities relating to the development of traction units, the CIVIA train prototype became operational via a CAF traction unit. Also, the Group began to develop traction inverter prototypes for supply voltages of 1,500 V and 750 V.

The degree of development attained in traction technologies gave rise to the decision, adopted in the year, to create TRAINELEC S.L., a new technological subsidiary that will engage in the development and manufacture of traction units.

The performance of the remaining technological subsidiaries was satisfactory, in line with the trend of previous years.

2006 marked an increase in the Group's collaboration with technological centres and universities, driven by its involvement in the AVI-2015 project, and the Group extended its initiatives to areas such as Electronics, Signalling, Railway Dynamics, Aerodynamics and Materials.

Development:

With respect to the development of new projects, these commenced in 2005 were continued in 2006:

- Brussels Underground.
- Madrid Underground, 3000 series.
- AVR trains for RENFE (AV and 250 Km/h).
- Palma de Mallorca Underground.
- Mexico Suburban.
- Diesel Trains for Algeria.
- Algiers Underground.
- High-speed trains for Turkey.

The following projects were started up:

- Malaga Light Underground.
- Diesel Units for RENFE - Regional trains.
- Electrical Units for RENFE - Regional trains
- Barcelona Underground.
- Pneumatic-spring bogie.
- Austenitical stainless steel body for the Mexico Suburban.

In order to provide support for the Company's commercial activity, numerous technical proposals were prepared, including most notably the following:

In the Spanish market:

- RENFE - Freight: Line locomotives.
- RENFE - Regional trains: Diesel trains.
- RENFE - Regional trains: Electric units.
- Vitoria-Gasteiz Tram System.

In the export market, both for current customers:

- Rome Underground.
- Irish Rail (IE).
- Finnish Railways (VR).

And for potential new customers as in the case of:

- German and French railways.
- Arabia Saudi, Cairo Underground and Delhi Underground.

Written policies were established for the management of both overall risk and risk that may affect other areas.

The CAF Group is exposed to various financial risks during the performance of its business activities, including market risk (exchange rate risk, fair value interest rate risk, price risk etc.), credit risk, liquidity risk and cash flow interest rate risk.

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

The Group's Financial Division 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 operate in the international arena and are therefore exposed to exchange rate risk on their foreign currency transactions (especially US dollar and euro transactions). 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 risks associated with future commercial transactions and balance sheet assets and liabilities, which arise when the future commercial transactions or assets and liabilities in question are denominated in a currency other than the Group's functional currency (i.e. the euro).

The Group's standard practice is to hedge in full 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 entered into, thereby ensuring that the Group's earnings are a fair presentation of its industrial and service activities.

b) Credit risk

Most of the trade receivables and work in progress correspond to contracts with clients located in foreign countries and remuneration is generally established on the basis of the percentage of completion of the project.

The Company's standard practice is to hedge against the risk of termination or default associated with contracts entered into with clients in non-OECD countries by taking out export insurance policies, pursuant to the OECD Agreement rules on instruments 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 for assuming its credit risk, plus interest and any margin on financing.

c) Liquidity risk

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to cover the timely payment of all its commitments.

The CAF Group manages liquidity risk by:

- Seeking the highest possible level of self-financing on each of its contracts.
- Maintaining undrawn credit facilities.

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

The Group's interest rate risk arises from the use of external sources of financing.

The CAF Group generally settles all amounts owed to third parties in due time using short-term external financing bearing floating interest rates (normally the Euribor), thereby substantially reducing its interest rate risk.

Outlook

The short-term outlook for CAF may be summarised in the following initiatives:

- Gradual increase in production capacity and standardisation of activities to cater for the increasing backlog.

- Stregthening of the Company in the industrial, technological and organisational areas through assets investments.

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

- Continued presence in international railroad material markets.

- Development of the expansion potential in railroad service business lines (concessions).

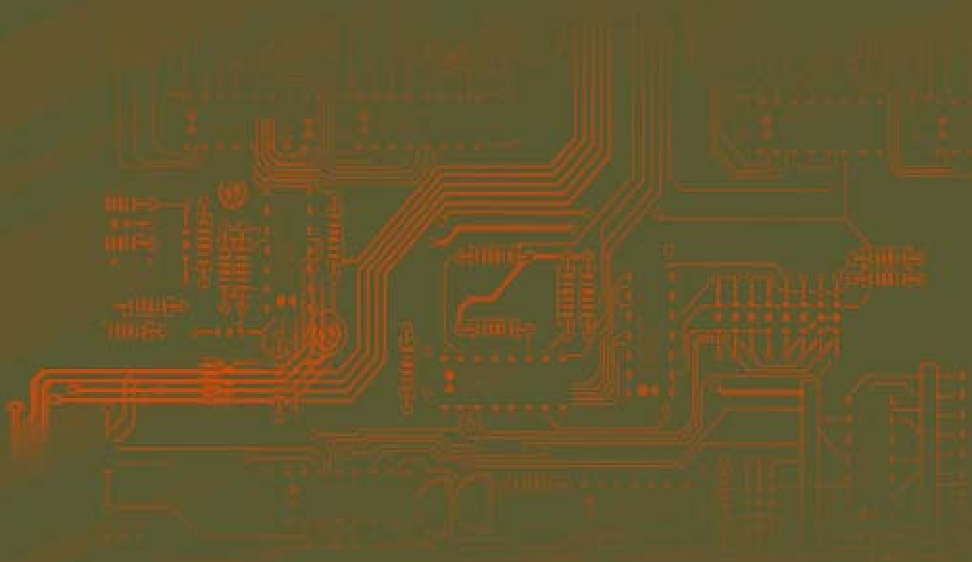
- Promotion of the rolling stock and maintenance area.

Subsequent events

At 28 February 2007 the Group had a firm backlog of EUR 3,170,454 thousand.

No other significant events occurred subsequent to 2006 year-end.

Letter from the Auditor



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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 IFRSs as adopted by the European Union (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

1. We have audited the consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Parent) and Subsidiaries composing the CAF Group (see Notes 1 and 2-f), which consist of the consolidated balance sheet at 31 December 2006 and the related consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent'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 policies applied and of the estimates made.

2. As required by Spanish corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the figures for 2006 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity, the figures for 2005. Our opinion refers only to the consolidated financial statements for 2006. On 29 March 2006, we issued our auditors' report on the 2005 consolidated financial statements, in which we expressed an unqualified opinion.

3. In our opinion, the accompanying consolidated financial statements for 2006 present fairly, in all material respects, the consolidated equity and consolidated financial position of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries at 31 December 2006 and 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 applied on a basis consistent with that of the preceding year.

4. The accompanying consolidated directors' report for 2006 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2006. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Joseba Ijalba Ruiz

29 March, 2007

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
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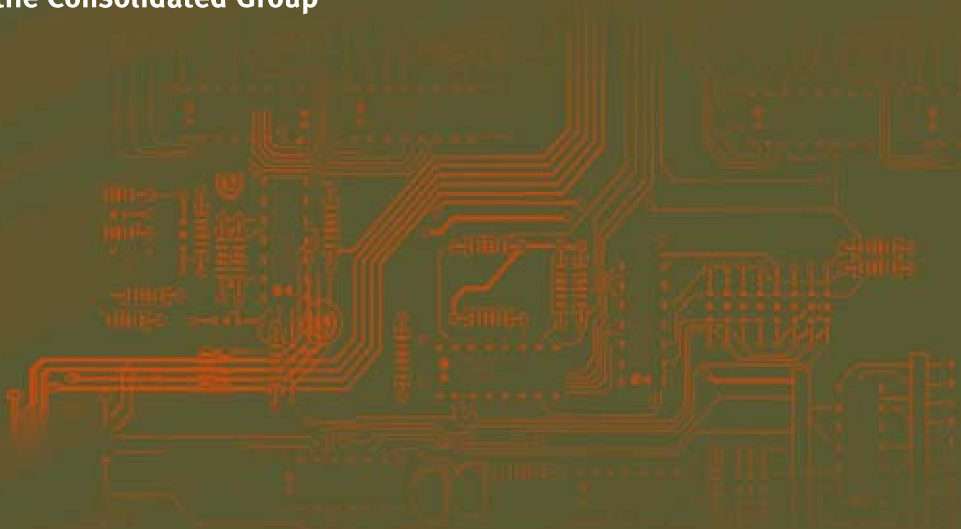
Financial Statements of the Consolidated Group



Consolidated balance sheets

at December 31, 2006 and 2005 (Notes 1 to 6) (Euros)

Assets	31-12-06	31-12-05 (*)
Non-current assets:		
Other intangible assets, net (Note 7)	101,288,883	12,632,530
Property, plant and equipment, net (Note 8)	155,609,574	146,408,693
Investments accounted for using the equity method (Note 9)	835,038	728,812
Non-current financial assets (Note 9)	34,354,571	27,704,769
Deferred tax assets (Note 18)	13,430,075	5,035,632
Total non-current assets	305,518,141	192,510,436
Current assets:		
Inventories (Note 11)	50,893,181	67,389,443
Trade and other receivables (Note 12)	402,123,753	324,952,312
Receivable from associates (Notes 10 and 12)	54,234	3,433
Other current financial assets	2,712,565	1,575,711
Derivative financial instruments (Note 17)	6,877,996	5,672,599
Current investments (Note 13)	261,068,814	33,551,989
Tax receivables (Note 19)	16,637,341	12,448,881
Cash and cash equivalents	9,898,296	1,903,693
Other current assets	819,940	580,316
Total current assets	751,086,120	448,078,377
Total assets	1,056,604,261	640,588,813

Equity and Liabilities	31-12-06	31-12-05 (*)
Equity:		
Of the Parent (Note 14)		
Share capital	10,318,506	10,318,506
Share premium	11,863,347	11,863,347
Revaluation reserve	56,508,846	56,551,093
Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method	106,058,426	92,901,039
Exchange differences	3,956,727	1,163,690
Valuation adjustments	16,234	(984,460)
Net profit for the year	34,638,698	18,143,386
Equity attributable to shareholders of the Parent	**223,360,784**	**189,956,601**
Minority interests	**2,670,387**	**2,658,625**
Total equity	**226,031,171**	**192,615,226**
Non-current liabilities		
Long-term provisions (Note 3-ñ)	**1,301,422**	**1,362,416**
Bank borrowings (Note 16)	**96,709,370**	**37,307**
Derivative financial instruments (Note 17)	**3,989,921**	**221,052**
Other non-current financial liabilities (Note 15)	**79,896,655**	**62,185,062**
Deferred tax liabilities (Note 18)	**24,491,394**	**18,365,236**
Other non-current liabilities	**—**	**1,065,000**
Total non-current liabilities	**206,388,762**	**83,236,073**
Current liabilities:		
Bank borrowings (Note 16)	**270,010**	**184,805**
Derivative financial instruments	**—**	**70,943**
Other current financial liabilities	**18,721,553**	**16,031,736**
Payable to associates (Note 10)	**939,879**	**595,993**
Trade and other payables		
Advances received on orders	249,166,941	115,849,837
Accounts payable for purchases and services	223,742,192	153,203,784
	472,909,133	**269,053,621**
Short-term provisions (Note 20)	**82,309,981**	**39,520,484**
Other payables		
Tax payables (Note 19)	33,574,439	28,549,001
Other current liabilities	15,459,333	10,730,931
	49,033,772	**39,279,932**
Total current liabilities	**624,184,328**	**364,737,514**
Equity and liabilities	**1,056,604,261**	**640,588,813**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the consolidated balance sheet at 31 December 2006.

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

Consolidated income statements

for the years ended 31 December 2006 and 2005 (Notes 1 to 6) (Euros)

(Debit) Credit	2006	2005 (*)
Continuing operations:		
Revenue (Note 6)	805,727,489	680,798,488
+/- Change in inventories of finished goods and work in progress (Note 11)	(82,481,259)	268,750
Procurements (Note 21)	(349,460,291)	(396,262,259)
Other operating income	1,168,225	886,785
Staff costs (Note 22)	(188,223,776)	(165,880,761)
Other operating expenses	(125,849,385)	(79,908,049)
Depreciation and amortisation charge (Notes 7 and 8)	(18,019,073)	(16,599,384)
Operating income	**42,861,930**	**23,303,570**
Finance income (Note 13)	1,624,829	4,883,652
Finance costs (Note 16)	(2,897,796)	(5,768,806)
Financial loss	**(1,272,967)**	**(885,154)**
Results of companies accounted for using the equity method (Note 9)	297,788	204,558
Other gains and losses (net) (Note 3-b)	632,726	26,547
Profit before tax	**42,519,477**	**22,649,521**
Income tax (Notes 3-m, 18 and 19)	(16,369,017)	(8,880,797)
Positive adjustments to income tax (Note 3-m)	8,500,000	4,411,490
Profit from continuing operations	**34,650,460**	**18,180,214**
Profit for the year	**34,650,460**	**18,180,214**
Attributable to:		
Shareholders of the Parent	34,638,698	18,143,386
Minority interests	11,762	36,828
Earnings per share (in euros) (Note 3-r)		
Basic	10.10	5.29
Diluted	10.10	5.29

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the 2006 consolidated income statement.

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

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

Consolidated statements of changes in equity

for the years ended 31 December 2006 and 2005 (Note 14) (Euros)

	Share Capital	Share Premium	Reserve for Revaluation of Unrealised Assets and Liabilities	Legal Reserve	Other Voluntary Reserves	Reserves of Consolidated Companies	Valuation Adjustments	Translation differences	Net Profit for the Year	Minority interests	Total Equity
Balances at 1 January 2005 (*)	**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)	—	—
Dividends	—	—	—	—	—	—	—	—	(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
Changes in the scope of consolidation	—	—	—	—	—	—	—	—	—	663,171	663,171
Other	—	—	—	—	—	31	—	—	—	—	31
Balances at 31 December 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**
Distribution of profit for the year											
To reserves	—	—	—	—	8,921,574	3,736,892	—	—	(12,658,466)	—	—
Dividends	—	—	—	—	—	—	—	—	(5,484,920)	—	(5,484,920)
Translation differences	—	—	—	—	—	—	—	(2,334,791)	—	—	(2,334,791)
Change in translation differences due to hedges	—	—	—	—	—	—	—	5,127,828	—	—	5,127,828
Change in hedging reserves	—	—	—	—	543,993	5,792	1,000,694	—	—	_	1,550,479
Net profit for 2006	—	—	—	—	—	—	—	—	34,638,698	—	34,638,698
Profit attributable to minority interests	—	—	—	—	—	—	—	—	—	11,762	11,762
Changes in the scope of consolidation	—	—	—	—	—	—	—	—	—	—	—
Other	—	—	(42,247)	—	—	(50,864)	—	—	—	—	(93,111)
Balances at 31 December 2006	**10,318,506**	**11,863,347**	**56,508,846**	**2,063,704**	**97,933,758**	**6,060,964**	**16,234**	**3,956,727**	**34,638,698**	**2,670,387**	**226,031,171**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of changes in equity for 2006.

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

Consolidated cash flow statements

for the years ended 31 December 2006 and 2005 (Euros)

	2006	2005 (*)
Cash flows from operating activities:		
Profit before tax	42,519,477	22,649,521
Adjustments for:		
Depreciation and amortisation (Notes 7 and 8)	17,479,630	16,599,384
Amortisation of written-off expenses	—	(392,944)
Income tax (Notes 3-m, 18 and 19)	(7,869,017)	(4,469,307)
Long-term provisions and Other non-current financial liabilities (Notes 3-ñ and 15)	17,239,280	695,194
Change in provisions for non-current financial assets (Note 9)	2,805,600	5,215,432
Net additions to short-term provisions (Note 20)	61,333,187	15,722,359
Gains on disposal of non-current assets (Notes 7, 8 and 3-b)	(656,443)	(34,120)
Losses on disposal of non-current assets (Notes 7, 8 and 3-b)	29,474	18,326
Cash from operations	**132,881,188**	**56,003,845**
Adjustments to value of long-term derivative financial instruments (Note 17)	3,768,869	221,052
Deferred tax assets (Note 18)	(11,419,545)	(2,681,310)
Deferred tax liabilities (Note 18)	9,145,545	2,593,904
Amounts used of long-term provisions and Other non-current financial liabilities (Notes 3-ñ and 15)	(1,136,734)	(558,739)
Release of short-term provisions (Note 20)	(11,277,322)	(158,373)
Release of deferred tax liabilities (Note 18)	5,715	(547,907)
Change in working capital:		
Trade receivables and other current assets (Notes 3-d and 5)	(419,251,129)	59,723,378
Increase in inventories	22,037,022	(51,599,717)
Trade payables	208,168,161	(46,563,199)
Net cash flows from operating activities (I)	**(67,078,230)**	**16,432,934**
Cash flows from investing activities:		
Acquisition of intangible assets (Note 7)	(112,156,833)	(3,971,539)
Acquisition of non-current financial assets (Note 9)	(16,793,180)	(21,182,712)
Capital payments payable	—	1,065,000
Transfer of other intangible assets to inventories	—	1,176,563
Transfers of non-current financial assets to current assets	—	583,670
Acquisition of property, plant and equipment (Note 8)	(23,812,940)	(21,036,201)
Capital payments outstanding	—	(103,337)
Proceeds from the disposal of property, plant and equipment and intangible assets (Notes 7 and 8)	1,554,222	360,844
Investments accounted for using the equity method (Note 9)	(106,226)	118,438
Proceeds from the disposal of non-current financial assets (Note 9)	7,337,778	5,315,826
Net cash flows from investing activities (II)	**(143,977,179)**	**(37,673,448)**
Cash flows from financing activities:		
Valuation adjustments (Note 14)	6,678,307	(689,347)
Minority and other interests (Note 14)	(93,111)	663,202
Cash inflows from other non-current financial liabilities (Note 15)	1,741,928	2,020,322
Long-term bank borrowings (Note 16)	96,672,063	—
Transfer of financial liabilities to short term	—	(44,728)
Trade financing (Notes 3-d, 5 and 12)	107,741,727	28,654,293
Transfer and repayment of non-current financial liabilities (Note 15)	—	(6,358,223)
Net translation differences	11,794,018	2,160,668
Dividends paid by the Parent (Note 14)	(5,484,920)	(4,696,462)
Net cash flows from financing activities (III)	**219,050,012**	**21,709,725**
Net increase in cash and cash equivalents (I+II+III)	**7,994,603**	**469,211**
Cash and cash equivalents at the beginning of the period	1,903,693	1,434,482
Cash and cash equivalents at the end of the period	**9,898,296**	**1,903,693**

(*) Presented for comparison purposes only.

The accompnaying Notes 1 to 27 are an integral part of the consolidated cash flow statement for 2006.

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

Consolidated Annual Report

for the year ended December 31, 2006

1. Description and activities of the Parent

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

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

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

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

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The consolidated financial statements of the CAF Group for 2006 were formally prepared by the directors:

- In accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, including the International Accounting Standards (IAS), and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC). The principal accounting policies and measurement bases applied in preparing the CAF Group's consolidated financial statements for 2006 are summarised in Note 3.
- Taking into account all the mandatory accounting policies and rules and measurement bases with a material effect on the consolidated financial statements, as well as the alternative treatments permitted by the relevant standards in this connection, which are specified in Note 3.
- So that they present fairly the CAF Group's consolidated equity and financial position at 31 December 2006, and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.
- On the basis of the accounting records kept by the Parent and by the other Group companies. However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2006 (IFRSs) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with the International Financial Reporting Standards.

The CAF Group's consolidated financial statements for 2005 were approved by the shareholders at the Annual General Meeting of CAF on 10 June 2006 (see Note 2-b). The 2006 consolidated financial statements of the Group and the 2005 financial statements of the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, CAF's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

b) Adoption of International Financial Reporting Standards (IFRSs)

The Group's consolidated financial statements for the year ended 31 December 2006 were prepared in accordance with International Financial Reporting Standards (IFRSs), in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of 19 July 2002, taking into account all the mandatory accounting policies and rules and measurement bases with a material effect thereon, as well as the alternative treatments permitted by the relevant standards in this connection.

The rules, modifications and interpretations applicable from 1 January 2006 do not have a significant impact on the accompanying consolidated financial statements, except for the early application of the Interpretation of IFRIC 12 on Concession Services issued in November 2006, without retrospective effect (see Note 3-a). The Group does not expect that the rules and interpretations that are in the process of issue but not effective at year-end will have a material effect on these consolidated financial statements.

c) Functional currency

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

d) Use of estimates

In the consolidated financial statements of the CAF Group for 2006 estimates were occasionally used.

Although these estimates were made on the basis of the best information available at 31 December 2006 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated income statements.

e) Comparative information

As required by IAS 1, the information relating to 2006 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with similar information relating to 2005.

The 2006 consolidated financial statements, which are included for comparison purposes, were also prepared in accordance with IFRSs as adopted by the European Union consistently with the standards applied in 2005.

f) Consolidable Group and consolidation principles

Scope of consolidation

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

The accompanying consolidated financial statements for the year ended 31 December 2006 were prepared from the individual accounting records at 31 December 2006 of Construcciones y Auxiliar de Ferrocarriles, S.A. (Parent – see Note 1) and of the subsidiaries listed below:

	% of control or Influence	Location	Line of Business	Auditor
Fully consolidated (*)				
Industrial Subgroup				
CAF, S.A.	Parent	Guipúzcoa (Spain)	Marketing and manufacture of railway equipment and components.	Deloitte
Trenes de Navarra, S.A.U,	100%	Navarra (Spain)	Manufacture and assembly of railway equipment and components.	Not obliged
Construcciones Ferroviarias de Madrid, S.L.U.	100%	Madrid (Spain)	Manufacture and assembly of railway equipment and components.	Not obliged
Construcciones Ferroviarias CAF-Santana, S.A.	67%	Jaén (Spain)	Manufacture and assembly of railway equipment and components.	Deloitte
CAF USA, Inc.	100%	Delaware (USA)	Manufacture and assembly of railway equipment and components.	Deloitte
CAF México, S.A. de C.V.	100%	Mexico City (Mexico)	Marketing and manufacture of railway equipment and components.	Deloitte
CAF Brasil Ind. e C., S.A.	100%	Sao Paulo (Brazil)	Marketing and manufacture of railway equipment and components.	Ernst & Young
CAF Argentina, S.A.	99.9%	Buenos Aires (Argentina)	Repair and maintenance of railway equipment and components.	Ernst & Young
CAF Irlanda, Ltda.	100%	Belfast (Northern Ireland)	Marketing and manufacture of railway equipment and components.	Deloitte
CAF Italia, S.R.L.	100%	Rome (Italy)	Maintenance of railway equipment.	Deloitte
Technology Subgroup				
CAF I+D, S.L. (Sole-Shareholder Company)	100%	Guipúzcoa (Spain)	R&D in relation to railway material.	Not obliged
Sasismag, S.A.U.	100%	Guipúzcoa (Spain)	Preparation of operating manuals (inactive).	Alter Cons.
Traintic, S.L.	99.9%	Guipúzcoa (Spain)	Manufacture of electronic products.	BSK
Ipar Sistemas 2002, S.L.	99.9%	Vizcaya (Spain)	Holding company.	Not obliged

	% of control or Influence	Location	Line of Business	Auditor
Services Subgroup				
Sermanfer, S.A.U.	100%	Madrid (Spain)	Railway material maintenance services.	Audiconta
Tradinsa Industrial, S.A.	80%	Lleida (Spain)	Railway material repair and maintenance.	Roig y Roig, Asociados
Sefemex, S.A. de C.V.	100%	Mexico City (Mexico)	Provision of services and administration of personnel.	Horacio Ramírez y Asociados, S.C.
Inversiones en Concesiones Ferroviarias, S.A.	77.6%	Guipúzcoa (Spain)	Promotion of companies through ownership interests.	Arco Auditores
Urbanización Parque Romareda, S.A.U.	100%	Zaragoza (Spain)	Ownership of shares.	Not obliged
Ferrocarriles Suburbanos, S.A. de C.V.	93.2%	Mexico City (Mexico)	Passenger land transport services.	Deloitte
Construction Subgroup				
Constructora del Ferrocarril Suburbano, S.L.	93.2%	Guipúzcoa (Spain)	Railway line operating equipment.	Deloitte
Constructora Mex. del Fer. Sub., S.A. de C.V.	93.2%	Mexico City (Mexico)	Railway line operating equipment.	Deloitte
Equity method (Note 9)				
Industrial Subgroup				
Sab Ibérica, S.A.	24.5%	Madrid (Spain)	Sale of railway braking equipment.	Deloitte
AAI-CAF Transit, LLC	50%	Maryland (USA)	Assembly of railway equipment and components (inactive).	Deloitte
Technology 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 automated production systems.	S.M. Auditores

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

Changes in the scope of consolidation

In 2006 Trenes de Navarra, S.A.U. was included in the scope of consolidation following its incorporation on 6 March 2006 with an initial share capital of EUR 300 thousand, which was fully subscribed and paid by CAF, S.A. Subsequently, share capital was increased by EUR 1,700 thousand, and, accordingly, was represented by 2,000 registered shares of EUR 1,000 par value each, which had been fully paid at year-end.

The main changes in the scope of consolidation in 2005 related to the formation of the following companies: Construcciones Ferroviarias CAF-Santana, S.A., CAF Italia, S.R.L., Ferrocarriles Suburbanos, S.A. de C.V., Constructora del Ferrocarril Suburbano, S.L., Construcciones Ferroviarias de Madrid, S.L. and Constructora Mexicana del Ferrocarril Suburbano, S.A. de C.V.

Basis of consolidation

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

"Associates" are companies over which the Parent is in a position to exercise significant influence, but not control or joint control, usually because it holds -directly or indirectly- more than 20% of the voting power of the investee. In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations, less any impairment of the individual investments (in the case of transactions with an associate, the related profits or losses are eliminated to the extent of the Group's interest). The effect of consolidating the investment in AAI-CAF Transit, LLC by the proportionate consolidation method 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 in translating all the assets, rights and obligations to euros at the closing exchange rates and the income statement items at the average exchange rates for the year.

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

3. Accounting principles and policies and measurement bases used

The principal accounting policies used by the CAF Group in preparing its consolidated financial statements at 31 December 2006 were as follows:

a) Other intangible assets

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

The amounts recognised by the CAF Group in relation to administrative concessions relate to the cost incurred in the acquisition or production of the assets required for the operation of this concession, and the borrowing costs incurred during the construction period of the infrastructures are capitalised. These amounts are amortised on a straight-line basis over the concession term (30 years) from the date of commencement of the related services (scheduled for 2008) (see Note 7).

b) Property, plant and equipment

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

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

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

Gains (losses) on the disposal of property, plant and equipment items amounted to approximately EUR 627 thousand and EUR 16 thousand in 2006 and 2005, respectively, and were recognised under "Other Gains or Losses" in the accompanying consolidated income statements.

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

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

c) Impairment of assets

At year-end, the CAF Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the write-down, if any. The recoverable amount is the higher of market value less costs to sell and value in use. Value in use is deemed to be the present value of estimated future cash flows.

If the recoverable amount of an asset is less than its net carrying amount, the related impairment loss is recognised for the difference with a charge to "Depreciation and Amortisation Charge" in the accompanying consolidated income statement and a credit to "Property, Plant and Equipment - Accumulated Depreciation" in the accompanying consolidated balance sheet.

Impairment losses recognised on an asset in prior years are reversed when there is a change in the estimate of its recoverable amount, and the value of the asset is increased up to the carrying amount that it would have had, had no impairment loss been recognised.

The CAF Group recognised no impairment losses in this connection in 2006 and 2005.

d) Financial instruments

Trade and other receivables

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

The required adjustments are recognised for the difference between the recoverable amount of accounts receivable and their carrying amount as discussed in the foregoing paragraph. At 31 December 2006, there were no material long-term accounts receivable without explicit interest.

The Group records provisions to cover bad debts due to past-dues, suspension of payments, insolvency or other reasons, after performing a case-by-case collectibility analysis. In 2006 and 2005 the net change in the allowance for impairment of accounts receivable was a provision to the allowance and a net release of approximately EUR 174 thousand and EUR 32 thousand, respectively (see Note 12).

The Group derecognises trade receivable balances for the amount of the accounts receivable assigned provided that it transferred substantially all the risks and rewards inherent to ownership of these accounts receivable (non-recourse factoring) (see Note 5). At 31 December 2006 no accounts receivable had been assigned.

On the basis of a case-by-case analysis, the Group recognises accounts receivable relating to various contracts net of the related inventory items in cases when the amounts settled exceed the cost incurred. At 31 December this amount totalled EUR 159,013 thousand (EUR 101,082 thousand at 31 December 2005) (see Notes 11 and 12).

Financial assets

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

(1) Loans and other long-term accounts receivable. These receivables are measured at their amortised cost, using the effective interest rate. Amortised cost is deemed to be the initial cost minus principal repayments and any reduction for impairment or non-payment. The effective interest rate is the discount rate that exactly matches the initial value to all its cash flows.

(2) Held-to-maturity investments, which are fixed-maturity investments that the Group has the intention and ability to hold to maturity. These investments are also measured at amortised cost.

(3) Held-for-trading financial assets, which are measured at market value through the consolidated income statement. These assets must meet any of the following characteristics:

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

At 31 December 2006 the Group held no assets classified in this category.

(4) Available-for-sale financial assets, which are measured at fair value. This category includes financial assets acquired that are not held for trading purposes and are not classified as held-to-maturity investments or as financial assets at fair value through profit or loss. The Group measured the investments classified in this category at acquisition cost or at their recoverable amount or market value (understood to be the quoted price or underlying carrying amount at 31 December 2006, as appropriate). At the end of the reporting period the value of these assets is revised and the related allowance is recognised, if appropriate, with a charge to "Other Operating Expenses", since this method does not significantly differ from market value.

CAF Group management determines the most appropriate classification for each asset at the time of acquisition and revises it at year-end.

Cash and cash equivalents

This heading in the accompanying consolidated balance sheet includes cash, demand deposits and other short-term, highly liquid investments that are readily converted into cash and that are not exposed to changes in their value.

Trade and other payables

Trade and other payables are initially recognised at market value and are subsequently measured at amortised cost using the effective interest method.

Bank borrowings and other financial liabilities

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

Derivative financial instruments

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

The Group reviews the conditions that a financial derivative must meet to qualify for hedge accounting to ensure that such conditions are met, i.e.: (1) it hedges one of the following three types of risk: fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation; (2) it is effective in offsetting any risk inherent to the hedged item or position throughout the expected term of the hedge, and (3) there is sufficient documentation evidencing that the financial derivative was specifically arranged to hedge certain balances or transactions and the manner in which the effectiveness of the hedge was expected to be achieved and measured, provided that this is consistent with the Group's risk management policy.

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

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

– In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items attributable to the type of risk being hedged are recognised directly in “Financial Profit (Loss)” in the accompanying consolidated income statement. The Group records as fair value hedges the hedges arranged for construction work commenced from 2006, since the necessary conditions are met for this type of hedge.

– In cash flow hedges, the gains or losses attributable to the effective portion of the hedging instruments are recognised temporarily in equity under “Valuation Adjustments”. This method is used by the Group to hedge work commenced in 2005 and in prior years.

– In hedges of a net investment in a foreign operation, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in equity under “Translation Differences”. This hedge was used for the equity of CAF USA, Inc. and for the contributions which will be made to Ferrocarriles Suburbanos, S.A. de C.V. (see Note 2-f).

As firm commitments give rise to the recognition of assets and/or liabilities in the consolidated balance sheet, the amounts previously recognised in equity are reclassified to the consolidated income statement.

e) Inventory valuation

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

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

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

2. Costs of conversion: based on standard hourly absorption rates for labour and direct and indirect production overheads, which do not differ materially from actual hourly rates.

3. Interest costs: calculated according to the financing requirements directly allocable to each project contract.

f) Recognition of contract revenue and profit

For construction contracts, the Group generally recognises the revenue and profit on each contract by reference to the estimated stage of completion of the contract, calculated on the basis of the ratio of actual hours allocated to the contract to the total budgeted hours. Potential losses on project contracts are recognised in full when they become known or can be estimated.

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

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

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

Based on the revenue realised, the projected profit or loss on each contract (calculated as described above) and the stage of completion, inventories are derecognised for the amount of the settled costs with a charge to the related consolidated income statement and a credit to "Goods and Work in Progress Whose Settled Costs Do Not Exceed Incurred Costs", which is recognised as a deduction from "Inventories" on the asset side of the consolidated balance sheet (see Note 11).

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

g) Customer advances and completed contract work

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

– If the difference is positive, under "Trade and Other Receivables - Unbilled Completed Contract Work" (see Note 12).

– If the difference is negative, under "Trade and Other Payables - Advances Received on Orders".

h) Foreign currency transactions and other commitments

The foreign currency asset and liability balances of consolidated foreign companies were translated to euros as explained in Note 2-f. The remaining non-monetary foreign currency asset and liability balances were translated at the exchange rate prevailing at 31 December 2006 and the positive and negative exchange differences between the exchange rate used and the year-end exchange rate were recognised in income. Foreign currency transactions for which the CAF Group decided to arrange financial derivatives in order to mitigate their foreign currency risk are recognised as described in Note 3-d.

i) Current/Non-current classification

In the accompanying consolidated balance sheet debts due to be settled within 12 months are classified as current items and those due to be settled within more than 12 months as non-current items.

j) Government grants

The Group companies recognise government grants using the following criteria:

1. Non-refundable grants related to assets are recognised at the amount granted, as a reduction of the value of the subsidised asset when they are definitively granted and are credited to income in proportion to the depreciation on the subsidised assets.

2. Grants related to income are credited to income when they are definitively granted by reducing the subsidised costs.

k) Post-employment benefits

The consolidated companies pay defined-contribution premiums to external pension funds with independent insurance companies to fund their legal and contractual obligations to certain of their employees for retirement or death (see Note 15). The contributions made in 2006 and 2005 amounted to EUR 2,105 thousand and EUR 1,396 thousand, respectively, and were charged to "Staff Costs" in the accompanying consolidated income statements. The outstanding balance payable to the company to which this commitment will be externalized amounted to EUR 12,979 thousand and EUR 41 thousand (Notes 18 and 22) at 31 December 2006 and was recognised under the heading "Non-Current Liabilities-Other Non-Current Liabilities" in the accompanying consolidated balance sheet at 31 December 2006. Also, in accordance with the applicable collective labour agreement, the Parent contributes an additional 1.75% of the base salary of its employees.

Also, in accordance with the conclusions of the study conducted by its legal advisers, the directors of the Parent considered that a historical right had vested in certain of its employees. In this connection, the Group recognised a defined benefit liability under "Non-Current Liabilities-Long-Term Provisions" and "Current Liabilities-Other Payables-Other Current Liabilities" in the consolidated balance sheet at 31 December 2006, amounting to EUR 12,979 thousand and EUR 41 thousand with a charge to "Staff Costs" in the accompanying 2006 consolidated income statement (see Notes 18 and 22). The future modifications to the commitment assumed will be charged to the income statement for the related year. In the assumptions applied in the actuarial study performed by an independent third party, the future commitments were discounted at a market rate, taking into account salary increases similar to those made in the past.. This commitment is currently being externalised.

l) Early retirements and termination benefits

At 31 December 2006, the headings "Non-Current Liabilities-Other Non-Current Liabilities" and "Current Liabilities-Other Current Liabilities" in the accompanying consolidated balance sheet included approximately EUR 6,889 thousand and EUR 1,911 thousand, respectively, (EUR 6,767 thousand at 31 December 2005) relating to the present value estimated by the directors of the future payments to be made to the employees that were no longer providing services to the Company and with whom the Company had entered into hand-over contracts at 31 December 2006. This provision was recognised in 2005, and was adjusted with a credit to "Staff Costs" in the accompanying consolidated income statement for 2006 (see Notes 18 and 22).

m) Income tax

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

The current income tax expense is calculated by aggregating the current tax arising from the application of the tax rate to the taxable profit for the year, after deducting the tax credits allowable for tax purposes, plus the change in the deferred tax assets and liabilities and other tax assets, arising from both tax losses and tax credits.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except, in general, when the temporary difference arises from the initial recognition of goodwill. Deferred tax assets are recognised for temporary differences to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax asset can be utilised, on the basis of its hedged backlog. The other deferred tax assets (tax loss and tax credit carryforwards) are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised.

Under IFRSs, deferred taxes are classified as non-current assets.

Pursuant to current legislation, tax assets relating to unused tax credits and tax relief are recognised for accounting purposes provided that the conditions established under the tax legislation are expected to be met. Accordingly, at 31 December 2006, the Group had recognised EUR 8,500 thousand in this connection under "Non-Current Financial Assets" (see Note 9), after taking a tax credit of EUR 6,000 in estimating its income tax expense for 2006 (see Note 18) and recognising EUR 8,500 thousand with a credit to "Income Tax" in the accompanying consolidated income statement (at 31 December 2005 the amount recognised was EUR 6,000 thousand after recognising EUR 4,411 thousand with a credit to "Income Tax" in the consolidated income statement). In addition, in view of the inherent uncertainty as regards the recovery of assets of this nature, in accordance with the principle of prudence, the Group maintained a provision of EUR 3.5 million recognised in prior years based on an evaluation of its backlog (see Note 20).

EUR 7,185 thousand of these tax assets were recognised under "Non-Current Financial Assets - Loans and Receivables" (see Note 9) and the remaining amount under "Current Assets-Tax Receivables" in the accompanying consolidated balance sheet at 31 December 2006 (see Note 19).

n) Leases

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

At 31 December 2006, the CAF Group held no finance leases.

Expenses arising on operating leases are allocated to "Other Operating Expenses" in the consolidated income statement over the term of the lease on an accrual basis.

ñ) Non-current provisions

The Group makes provisions for present obligations arising from past events that it expects to settle on maturity through an outflow of resources. The amount is based on the best estimate made by the Parent's directors at the reporting date and the obligations are recognised at the present value whenever the financial effect is material. In 2006 and 2005, the Group paid EUR 713 thousand and EUR 559 thousand and made provisions amounting to EUR 652 thousand and EUR 695 thousand mainly with a charge to "Staff Costs - Other Expenses" (see Note 22).

o) Short-term provisions

"Short-Term Provisions" in the accompanying consolidated balance sheet includes the provisions established by the Group to cover mainly warranty and contractual support service costs and other activity-related expenses (royalties, penalties, etc.) (see Note 20). "Other Operating Expenses" in the accompanying consolidated income statement for

2006 includes EUR 50,545 thousand (2005: EUR 8,540 thousand) relating to the difference between the provisions required in this connection at 2006 year-end and the provisions recognised at 2005 year-end. The expenses incurred in 2006 and 2005 in connection with the provision of contract warranty services (approximately EUR 10,870 thousand and EUR 9,037 thousand) were recognised in "Procurements" and "Staff Costs" in the accompanying consolidated income statements for 2006 and 2005.

p) Environmental matters

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

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

Also, Royal Decree 1866/2004 regulating the Spanish National CO_2 Emission Allowances Plan for 2005-2007 was approved in 2004. In accordance with this legislation, CAF must have allowances for CO_2 emissions made on or after 1 January 2005. Royal Decree 60/2005 approved the assignment for no consideration of individual emission allowances for each facility for 2005-2007. CAF was assigned emission allowances for the emission of 67,464 tonnes of CO_2 in that period. If the emissions made exceed the volume of allowances assigned, emission allowances will have to be acquired in the market.

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

In 2006 the Group made emissions for an amount almost equal to the allowances assigned for 2005 and did not recognise any amount in this connection at year-end, due to the scant significance thereof.

q) Cash flow statement

The following terms with the meanings specified are used in the consolidated cash flow statements, prepared in accordance with the indirect method:

– Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

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

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

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

r) Earnings per share

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

In the consolidated financial statements of the CAF Group for the year ended 31 December 2006 and 2005, the basic earnings per share and the diluted earnings per share coincided since there were no potential shares outstanding in 2005.

s) Discontinued operations

A discontinued operation is a line of business that the Company has decided to abandon and/or sell and whose assets, liabilities and net profit or loss can be distinguished physically, operationally and for financial reporting

purposes. Income and expenses of discontinued operations are presented separately in the consolidated income statement.

No line of business or business segment was discontinued in 2006 or 2005.

4. Distribution of the Parent's profit

The distribution of the Parent's profit for 2006 proposed by its directors is as follows:

Distribution	Thousands of Euros
To Voluntary reserves	31,050
Dividends	10,970
Total	**42,020**

5. Financial risk management policies

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

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

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

a) Market risk

The various CAF Group companies operate internationally and, therefore, are exposed to foreign currency risk (particularly the US dollar and the euro) in their foreign currency transactions. This risk arises on future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

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

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

b) Credit risk

The Group's accounts receivable and work in progress relate mainly to customers abroad. Contracts generally include progress billings.

It is standard Group practice to hedge against termination or default risk on contracts in non-OECD countries through the arrangement of export credit insurance in accordance with the OECD export credit consensus.

In addition to the foregoing, the Group has obtained firm commitments from financial institutions to purchase its accounts receivable, without recourse. Under these agreements, the Group pays the bank fee for assuming the credit risk and interest and a spread on the financing received.

c) Liquidity risk

Prudent risk management entails maintaining sufficient cash, marketable securities and financing availability to meet all the Group's commitments on a timely basis.

The CAF Group manages liquidity risk by:

• Seeking the highest level of self-financing with respect to each of the contracts.

• Maintaining undrawn credit balances.

d) Cash flow and fair value interest rate risk

The Group's interest rate risk arises on borrowings.

The CAF Group's general policy is to resort in exceptional circumstances only to third-party borrowings in the form of short-term debt tied to variable market indices, normally Euribor. Accordingly, the interest rate risk is substantially mitigated. In this connection, practically all the financial borrowings at 31 December 2006 were related to the concession obtained in Mexico (see Notes 7 and 16).

6. Segmentation

6.1. Basis of segmentation

The segment information on the CAF Group presented in the accompanying consolidated financial statements is structured as follows:

– On a primary basis by business unit, distinguishing between the "railway" and the "parts and components" business activities.

– On a secondary basis by geographical location of the Group's operations.

6.2. Basis and methodology for segment reporting

Segment revenue and expense are revenue and expenses directly attributable to the segment, and, accordingly, do not include interest, dividends or gains or losses arising from the disposal of investments or on debt redemption or repayment transactions. Segment result is presented before any adjustment for minority interests. Segment assets and liabilities are those directly related to its operating activities.

Primary segments

In accordance with the basis for primary segment reporting set forth in IFRSs, the CAF Group considered the two business units in operation as its primary segment, since it considers that its organisational and management structure and its system of internal reporting to its governing and executive body are such that the risks and returns are affected predominantly by the fact that its operations are performed in one or the other business area, taken to be all of the related products and services. Therefore, primary segment reporting includes identifiable components of the CAF Group that are characterised by their exposure to risk and returns that differ from those relating to other operating components that carry on their business activity in different environments.

Accordingly, and in keeping with past experience, the Group defined the primary segments indicated below, which it considers meet internal uniformity requirements as regards similarity of economic or political conditions, or risks arising from applicable regulations, exchange rates or proximity of activities and which are separated from other segments for the same reasons:

- Railway.
- Parts and Components.

Set forth below is the business reporting information:

	2006 (Thousands of Euros)			
Primary Segment (Business Units)	**Railway**	**Parts and Components**	**General**	**Total**
REVENUE:				
External sales	763,269	42,458	—	805,727
Inter-segment sales	—	16,372	—	16,372
Inter-segment eliminations	(16,372)	—	—	(16,372)
Total sales	**746,897**	**58,830**	**—**	**805,727**
RESULT:				
Segment result	44,526	2,156	(3,820)	42,862
Share in net gains of associates	—	—	298	298
Financial loss	—	—	(1,273)	(1,273)
Gains/Losses on disposal of non-current assets	—	—	633	633
Profit before tax	**44,526**	**2,156**	**(4,162)**	**42,520**
Income tax	—	—	(7,869)	(7,869)
Net profit for the year	**44,526**	**2,156**	**(12,031)**	**34,651**
Profit/Loss attributed to minority interests	—	—	(12)	(12)
Profit/Loss attributed to the Parent	**44,526**	**2,156**	**(12,043)**	**34,639**
ASSETS:				
Other intangible assets	101,154	135	—	101,289
Property, plant and equipment	132,620	18,070	4,919	155,609
Inventories	22,441	28,452	—	50,893
Trade and other receivables	388,407	9,528	4,243	402,178
Other non-current assets	—	—	48,620	48,620
Other current assets	—	—	298,015	298,015
Total Assets	**644,622**	**56,185**	**355,797**	**1,056,604**
LIABILITIES:				
Profit	44,526	2,156	(12,043)	34,639
Trade payables	457,361	11,042	5,446	473,849
Operating allowances	75,488	793	6,029	82,310
Other non-current financial liabilities	79,890	—	—	79,890
Other current financial liabilities	18,722	—	—	18,722
Equity (without profit for the year)	—	—	191,392	191,392
Other non-current liabilities	96,709	—	29,789	126,498
Other current liabilities	—	—	49,304	49,304
Total liabilities	**772,696**	**13,991**	**269,917**	**1,056,604**

The assets and liabilities recognised in relation to administrative concessions are presented in the Railway segment. At 31 December 2006 the assets and liabilities recognised in this connection amounted to approximately EUR 139 million (see Notes 7 and 13) and EUR 97 million, respectively (see Note 16).

Primary Segment (Business Units)	2005 (Thousands of Euros) Railway	Parts and Components	General	Total
REVENUE:				
External sales	64,541	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**
RESULT:				
Segment result	27,376	57	(4,130)	23,303
Share in net gains of associates	—	—	204	204
Financial loss	—	—	(885)	(885)
Gains/Losses on disposal of non-current assets	—	—	27	27
Profit before tax	**27,376**	**57**	**(4,784)**	**22,649**
Income tax	—	—	(4,469)	(4,469)
Net profit for the year	**27,376**	**57**	**(9,253)**	**18,180**
Profit/Loss attributed to minority interests	—	—	(37)	(37)
Profit/Loss attributed to the Parent	**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**
LIABILITIES:				
Profit	27,376	57	(9,290)	18,143
Trade payables	257,141	8,807	3,702	269,650
Operating allowances	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 (without profit for the year)	—	—	174,472	174,472
Other non-current liabilities	—	—	21,050	21,050
Other current liabilities	—	—	39,466	39,466
Total liabilities	**389,039**	**9,383**	**242,167**	**640,589**

Assets and liabilities for general use and the results generated by them were not allocated to the other segments, nor were the reconciling items arising by comparing the result of integrating the financial statements of the various business segments (prepared using management criteria) with the CAF Group's consolidated financial statements.

Secondary segmentation

Secondary segmentation is structured by geographical location:

• Spain.

• Abroad.

The reporting information relating to the secondary segments is as follows:

a) The sales distribution by geographical segments at 31 December 2006 and 2005 is as follows (thousands of euros):

Geographical location	2006	%	2005	%
Spain	561,607	69.70	380,396	55.88
Abroad (*)	244,120	30.30	300,402	44.12
Total	**805,727**	**100.00**	**680,798**	**100.00**

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

b) The distribution of net investments in property, plant and equipment by geographical segment at 31 December 2006 and 2005 is as follows (in euros):

Geographical location	2006	2005
Spain	150,619,912	140,583,069
Abroad	4,989,662	5,825,624
Total	**155,609,574**	**146,408,693**

Also, in addition to that indicated in the foregoing table, the Group invested in the infrastructures required to provide the services relating to the Mexico concession. These assets, in accordance with the applicable Standards, are recognised under "Other Intangible Assets-Administrative Concessions" (see Note 7). All such investments were made in Mexico.

7. Other intangible assets

The changes in the years ended 31 December 2006 and 2005 in other intangible asset accounts and in the related accumulated amortisation were as follows:

	Euros				
	Administrative Concessions	**Development Expenditure**	**Computer Software**	**Other**	**Total**
Balance at 01.01.05					
Cost	—	20,577,151	9,308,266	29,713	29,915,130
Accumulated depreciation and amortisation	—	(8,610,536)	(7,173,599)	(11,685)	(15,795,820)
Net Balance	**—**	**11,966,615**	**2,134,667**	**18,028**	**14,119,310**
Cost					
Inclusions in the scope of consolidation (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 11)	—	(1,176,563)	—	—	(1,176,563)
Cost balance at 31.12.05	**—**	**23,157,806**	**9,485,935**	**29,713**	**32,673,454**
Inclusion in the scope of consolidation (Note 2-f) (*)	—	—	4,076	—	4,076
Additions (*)	97,126,140	1,348,867	117,619	—	98,592,626
Transfers to inventories (Note 11)	—	(5,540,760)	—	—	(5,540,760)
Disposals, retirements or reductions (*)	—	(214,801)	(41,992)	(29,713)	(286,506)
Cost balance at 31.12.06	**97,126,140**	**18,751,112**	**9,565,638**	**—**	**125,442,890**
Accumulated amortisation					
Inclusion in the scope of consolidation (Note 2-f) (*)	—	—	(437)	—	(437)
Additions or charge for the year (*)	—	(3,161,377)	(1,094,605)	(7,011)	(4,262,993)
Transfers	—	—	18,326	—	18,326
Balance of accumulated amortisation at 31.12.05	**—**	**(11,771,913)**	**(8,250,315)**	**(18,696)**	**(20,040,924)**
Inclusion in the scope of consolidation (Note 2-f) (*)	—	—	—	—	—
Additions or charge for the year (*)	—	(3,455,011)	(718,760)	(4,874)	(4,178,645)
Disposals, retirements or reductions (*)	—	—	41,992	23,570	65,562
Balance of accumulated amortisation at 31.12.06	**—**	**(15,226,924)**	**(8,927,083)**	**—**	**(24,154,007)**
Net balance at 31.12.05	**—**	**11,385,893**	**1,235,620**	**11,017**	**12,632,530**
Net balance at 31.12.06	**97,126,140**	**3,524,188**	**638,555**	**—**	**101,288,883**

(*) Includes the currency translation effect.

As discussed in Note 3-a, in 2006 and 2005 the Group transferred EUR 5,541 thousand and EUR 1,177 thousand of capitalised development expenses relating to a project to a contract obtained that incorporates the technology developed (see Note 11).

The period additions recognised as administrative concessions relate to the cost incurred with respect to the assets required for the operation of the concession in Mexico discussed below, net of the grants received amounting to EUR 119,554 thousand and EUR 22,418 thousand. At 31 December 2006, this concession was not operative, but is scheduled to come into operation in 2008.

On 4 December 2003 and 24 June 2005 the Mexican Department of Communications and Transport (SCT) entered into two specific coordination agreements with the Mexican Government for the construction of the Suburban Railway in the metropolitan area of Mexico Valley.

On 12 July 2005 the Official Federation Gazette published the call notice and the general conditions of entry to participate in the public call for tender for the award of the concession to provide the scheduled public rail passenger suburban transport service (Cuautitlán-Buenavista route), located in Mexico State and in Mexico City, and for the use and operation of the Federation's public domain property, which included the licenses to provide the auxiliary services required. Subsequently, modifications were issued on 20 July 2005 and 23 August 2005 and were notified to the participants.

On 25 August 2005 the SCT granted title to the concession to the subsidiary Ferrocarriles Suburbanos, S.A. de C.V.

The general terms and conditions of the concession are as follows:

– The concession will have a term of 30 years. The periods in which any events arise not attributable to the Concession Holder leading to a delay in commencement or to a suspension of the Transport Service will not be taken into account in the calculation of the concession term. The concession holder may request that the concession term be extended.

– The Concession Holder will be entitled to be granted obligatory rights of way to provide the Transport Service on the Cuautitlán-Buenavista and Cuautitlán-Huehuetoca sections of the General Northeastern Railway Link.

The Concession Holder must construct the railway works and perform all the construction, reconstruction and adaptation work and supply and install all the railway material, equipment and subsystems required for the start-up of the Suburban Railway, except the road and urban work, which will be the responsibility of the SCT, in coordination with the Mexico State and Mexico City Government authorities.

The Parent's directors consider that the concession's future activity will enable the net cost of the assets used in this concession to be recovered.

The detailed terms and conditions of the title to the concession are included in the general terms stated in the invitation to tender.

8. Property, plant and equipment

The changes in the years ended 31 December 2006 and 2005 in property, plant and equipment accounts and in the related accumulated depreciation were as follows:

	Euros					
	Land and Structures	**Plant and Machinery**	**Other Fixtures, Tools and Furniture**	**Other Items of Property, Plant and Equipment**	**Advances and PP & E under Construction**	**Total**
Balance at 01.01.05						
Cost	135,445,654	139,887,650	9,684,552	16,053,567	—	301,071,423
Accumulated depreciation	(45,018,164)	(100,404,399)	(6,222,670)	(11,405,810)	—	(163,051,043)
Net balance	**90,427,490**	**39,483,251**	**3,461,882**	**4,647,757**	**–**	**138,020,380**
Cost or market value						
Inclusion in the scope of consolidation (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
Disposals, retirements or reductions (*)	(379,686)	(9,785,202)	(261,839)	(2,841,879)	—	(13,268,606)
Balance at 31.12.05	**143,453,872**	**140,753,184**	**10,345,775**	**14,581,438**	**–**	**309,134,269**
Inclusion in the scope of consolidation (Note 2-f) (*)	—	19,020	—	14,559	—	33,579
Additions (*)	4,780,149	13,652,083	626,216	1,253,967	60,585	20,373,000
Disposals, retirements or reductions (*)	(737,783)	(9,635,961)	(88,245)	(168,777)	—	(10,630,766)
Balance at 31.12.06	**147,496,238**	**144,789,946**	**10,883,746**	**15,670,315**	**2,588,946**	**321,429,191**
Accumulated depreciation						
Inclusion in the scope of consolidation (Note 2-f) (*)	—	—	—	(384)	—	(384)
Additions or charge for the year (*)	(2,278,289)	(7,729,912)	(628,245)	(1,684,717)	—	(12,321,163)
Transfers	—	(294,997)	—	—	—	(294,997)
Disposals, retirements or reductions (*)	233,298	9,701,699	219,916	2,787,098	—	12,942,011
Balance of accumulated amortisation at 31.12.05	**(47,063,155)**	**(98,727,609)**	**(6,630,999)**	**(10,303,813)**	**–**	**(162,725,576)**
Additions or charge for the year (*)	(2,649,161)	(8,103,848)	(713,230)	(1,552,259)	—	(13,018,498)
Disposals, retirements or reductions (*)	166,466	9,558,567	77,404	122,020	—	9,924,457
Balance of accumulated amortisation at 31.12.06	**(49,545,850)**	**(97,272,890)**	**(7,266,825)**	**(11,734,052)**	**–**	**(165,819,617)**
Net balance at 31.12.05	**96,390,717**	**42,025,575**	**3,714,776**	**4,277,625**	**–**	**146,408,693**
Net balance at 31.12.06	**97,950,388**	**47,517,056**	**3,616,921**	**3,936,263**	**2,588,946**	**155,609,574**

(*) Includes the currency translation effect.

In 2006 and 2005, the Group invested in its plants in order to increase production capacity.

In 2006 and 2005, the Group conducted an in-depth study of the items of property, plant and equipment and derecognised items that were fully depreciated and out of use amounting to a gross value of EUR 6,236 thousand and 12,282 thousand.

The effect of the revaluations of property, plant and equipment pursuant to Guipúzcoa Regulation 11/1996 and Guipúzcoa Decree 13/1991 on the depreciation charge for 2006 and prior years amounted to approximately EUR 294 thousand and EUR 3,809 thousand, respectively.

At 31 December 2006 and 2005, the Group had firm capital investment commitments amounting to approximately EUR 6,783 thousand and 10,006 thousand.

The consolidated companies take out insurance policies to adequately cover their property, plant and equipment. At 31 December 2006, the insurance policies covered the carrying amount of property, plant and equipment at that date.

At 31 December 2006 and 2005, the gross value of fully depreciated assets in use amounted to approximately EUR 118,543 thousand and EUR 112,691 thousand.

The Group deducts the amount of any grants received for the acquisition of an asset from the carrying amount of the asset acquired. At 31 December 2006 the net un-depreciated amount of the grants received totalled EUR 4,557 thousand (31 December 2005: EUR 1,875 thousand). The amount charged to income in 2006 amounted to EUR 965 thousand (31 December 2005: EUR 224 thousand) and was recognised under “Depreciation and Amortisation Charge” in the accompanying consolidated income statement.

Impairment losses

At 31 December 2006, the Group's directors considered that there were no indications of impairment on the Group's assets and, accordingly, no write downs were recorded at that date.

9. Investments in associates and non-current financial assets

The changes in the years ended 31 December 2006 and 2005 in non-current financial asset accounts were as follows:

	Euros								
	Investments in Associates	Investment Securities		Other Financial Investments		Financial Instruments (Note 17)	Loands and Receivables		Total
	Cost	Amortised Cost	Allowance	Amortised Cost	Allowance	Market Value	Amortised Cost	Allowance	
Balance at 01.01.05	**847,250**	**9,621,425**	**(237,273)**	**3,660,110**	**(931,302)**	**–**	**9,018,655**	**(1,692,058)**	**20,286,807**
Inclusion in the scope of consolidation (Note 2.f) (*)	—	2,040,000	—	—	—	—	87,178	—	2,127,178
Additions or charge for the year (*)	23,836	—	(472,432)	14,602,085	(4,743,000)	(1,390,035)	5,843,484	(559,536)	13,304,402
Disposals, retirements or reductions (*)	(142,274)	—	—	(1,222,816)	422,345	—	(4,515,355)	—	(5,458,100)
Transfers and write-offs	—	—	—	(806,514)	222,844	—	(1,243,036)	—	(1,826,706)
Balance at 31.12.05	**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**
Inclusion in the scope of consolidation (Note 2-f) (*)	—	3,180,560	—	—	—	—	—	—	3,180,560
Additions or charge for the year (*)	106,226	—	(11,600)	448,614	(2,794,000)	—	13,164,006	—	10,913,246
Disposals, retirements or reductions (*)	—	—	—	—	602,797	—	(6,855,426)	44,586	(6,208,043)
Transfers and write-offs	—	—	—	(2,631,319)	—	1,390,035	11,549	—	(1,129,735)
Balance at 31.12.06	**835,038**	**14,841,985**	**(721,305)**	**14,050,160**	**(7,220,316)**	**—**	**15,611,055**	**(2,207,008)**	**35,189,609**

(*) Includes the currency translation effect.

a) Investments in associates

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

Name	Location	Company Object and Business Activity	Ownership Interest		Investments in Associates	Basic Financial Data (1)			Auditor
			Direct	Indirect		Share Capital	Reserves and Retained Earnings	Profit/Loss for 2006	
Sab Ibérica, S.A.	Madrid (Spain)	Sale of railway braking equipment	24.5%	—	448,081	84,140	839,436	905,331	Deloitte
Lander Simulation and Training Solutions, S.A.	Guipúzcoa (Spain)	Study and manufacture of simulators.	—	40%	315,595	150,250	453,887	184,848	S.M. Auditores
Asirys Vision Technologies, S.A.	Guipúzcoa (Spain)	Study and manufacture of automated production systems.	—	26%	71,362	109,090	157,520	7,858	S.M. Auditores

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

b) Non-current investment securities

“Non-Current Investment Securities” includes direct and indirect ownership interests of 5%, 7.6%, 15%, 20% and 10% 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., Dano-Rail, S.Coop, and Ferromovil 3000, S.L., respectively, which are all defined as available-for-sale assets.

At 31 December 2006 these assets were pledged under a financing agreement entered into by Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A. and a bank on 16 February 2004.

In 2006 10% of “Ferromovil 3000, S.L.” was acquired from a third party for EUR 3,180 thousand. The object of this company is mainly the acquisition and marketing of railway vehicles.

Trenes en Arrendamiento, A.I.E. was formed in 2005, with a share capital amounting to EUR 10,000 thousand. The Company was 95% owned by CAF, S.A. and 5% owned by Inversiones en Concesiones Ferroviarias, S.A. This company was subsequently transformed into a corporation operating under the name of Arrendadora de Equipamientos Ferroviarios, S.A. and 85% of the shares and related voting rights (80% of which were previously owned by CAF, S.A. and 5% by Inversiones en Concesiones Ferroviarias, S.A.) were sold to a third party at no gain or loss. In 2005, a capital increase of EUR 2,000 thousand was performed, which was subscribed by its shareholders in proportion to their existing ownership interests. This company engages in the operating lease to a third party of vehicles manufactured by the Group. At 31 December 2006, EUR 1,065 thousand had not been paid and were recognised under “Other Current Liabilities” in the accompanying consolidated balance sheet. The Group's directors consider that this unpaid amount will be callable in the short term.

On 15 December 2005, the capital of Dano-Rail, S.Coop. was increased by EUR 240,000 through the issue of 240 new shares at EUR 1,000 par value each, fully subscribed by CAF I+D, S.L. (Sole-Shareholder company). The business purpose of this company is mainly the construction of equipment and the provision of railway manufacturing and maintenance services.

c) Other financial assets

"Other Current Financial Investments" and "Other Non-Current Financial Investments" include, inter alia, the investments that the Parent owns in the "Share Ownership Scheme", defined as a held-to-maturity investment.

In 2005 the Parent acquired a new asset amounting to EUR 14,273 thousand and recognised it under "Other Financial Investments". This asset is invested in a series of rights in a share ownership scheme. These "Rights" were acquired from Cartera Social, S.A. (see Note 14), a company in which CAF employees have equity interests and with respect to which eight employees or former employees of the Parent act as trustee, and whose company object is to promote permanent employees' ownership of CAF's share capital. Cartera Social, S.A. is the sole owner of these shares and is fully entitled to all the related dividend and voting rights. Accordingly, CAF does not have any rights, obligations or risks with respect to the economic profit or loss that might arise at Cartera Social, S.A. The Parent undertakes to sell and the employees undertake to buy these rights in 84 similar monthly instalments. The aforementioned shares will be owned by Cartera Social, S.A. until the employee exercises his/her right, which cannot occur prior to termination of the employment relationship. During this period Cartera Social, S.A. will finance ownership of the shares essentially with the amount paid by CAF to purchase the aforementioned rights.

Since the Parent bought the aforementioned rights at a price that, net of the 20% discount on the sale to its employees and taking into account the contribution of Cartera Social, is higher than the sale price thereof, this scheme will give rise to a loss that will be incurred over the above-mentioned seven-year period. However, CAF has the option to unilaterally rescind the commitment undertaken to Cartera Social, S.A. and to its employees, in which case CAF will be entitled to a proportional refund of the amount of the rights acquired by it but not sold to its employees, and, accordingly, with no additional cost. CAF's directors agreed not to unilaterally rescind this commitment in the next six years.

As a result of this commitment and in order to adjust the cost of the rights acquired to their net recoverable amount, at 31 December 2006 the Parent recognised an allowance of EUR 2,794 thousand with a charge to "Other Operating Expenses" in the accompanying consolidated income statement. At 31 December 2006, the portion of this asset that was expected to be sold within one year and the related allowance were recognised under "Current Investments" in the accompanying consolidated balance sheet at that date (see Note 13). In 2006 rights were sold whose cost and allowance amounted to approximately EUR 2,631 thousand and EUR 603 thousand, respectively (2005: EUR 1,223 miles and EUR 422 thousand, respectively) (see Note 13).

d) Financial instruments

"Financial Instruments" includes the market value of exchange rate hedges maturing at long term (see Note 17).

e) Loans and receivables

In this heading the CAF Group includes mainly tax receivables in connection with tax assets recognised (see Notes 3-m and 19), other non-current taxes receivable and long-term guarantees provided. These receivables are recognised at amortised cost. The value of these assets basically matches their amortised cost.

10. Balances and transactions with related parties

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

	Euros					
	2006			2005		
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.	104,547	4,640,873	224,763	81,678	3,749,446	163,406
CAF I+D subgroup	—	83,578	—	—	—	40,000
Alquiler de Trenes A.I.E.	92,305,675	—	—	104,865,281	—	—
Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A	12,092,018	—	—	19,775,680	—	—

As a result of the transactions performed in 2006, those performed in previous years and the advances granted, the Group's balances with investees that were not fully consolidated at 31 December 2006 and 2005 were as follows (see Note 2-f):

	Euros			
	31.12.06		31.12.05	
Company	Accounts Receivable	Accounts Payable	Accounts Receivable	Accounts Payable
Sab Ibérica, S.A.	360,144 (2)	687,114	3,433	583,742
CAF I+D subgroup	—	83,578	—	—
Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A.	629,317 (3)	—	629,317 (3)	—
Alquiler de Trenes, A.I.E.	889,372 (1)	—	265,727 (1)	—
Other	—	169,187	—	12,251
	1,878,833	939,879	898,477	595,993

(1) Recognised under "Trade and Other Receivables".

(2) A balance of EUR 305,910 was recognised under "Inventories – Advances to Suppliers".

(3) Recognised under "Non-Current Financial Assets-Loans and Accounts Receivable".

11. Inventories and construction contracts

The breakdown of inventories at 31 December 2006 and 2005 is as follows:

	Euros	
	31.12.06	**31.12.05**
Raw materials and other supplies (Note 21)	65,493,867	53,501,502
Work in progress and finished and semi-finished goods (Note 3-j)	424,155,360	530,216,767
Goods and work in progress whose settled costs do not exceed incurred costs	(458,252,504)	(538,660,767)
Advances to suppliers	19,496,458	22,331,941
	50,893,181	**67,389,443**

The "Goods and Work In Progress Whose Settled Costs do not Exceed Incurred Costs" account relates to the settlement of costs on the basis of the actual percentage of completion (see Notes 3-f and 12).

The Group deducts the grants received for the acquisition of "Work in Progress and Finished and Semi-Finished Goods" from the carrying amount of this item. The unamortised net amount of grants received totalled EUR 3,369 thousand and EUR 2,224 thousand at 31 December 2006 (see Note 15) and 2005, respectively. EUR 1,672 thousand and EUR 1,428 thousand of grants related to income and to assets were charged to income in 2006 and 2005, respectively, and these amounts were recognised under "Change in Inventories of Finished Goods and Work in Progress" in the accompanying consolidated income statement.

Disclosures relating to the CAF Group's construction contracts, which account for 97.86% of the Group's revenue, are provided in Note 6 on segmentation, within the railway segment.

At 31 December 2006, the Group held firm raw materials purchase commitments amounting to approximately EUR 684,821 thousand (see Note 26) (31 December 2005: EUR 711,288 thousand).

12. Trade and other receivables

The breakdown of "Trade and Other Receivables" at 31 December 2006 and 2005 is as follows:

	Euros	
	31.12.06	**31.12.05**
Customer receivables - in euros	279,692,920	221,094,997
Customer receivables - in foreign currency (Note 3-h)	123,584,387	104,836,506
Receivable from associates (Note 10)	54,234	3,433
Impairment allowances (Note 3-d)	(1,153,554)	(979,191)
	402,177,987	**324,955,745**

These balances receivable arose as a result of the recognition of the stage of completion, as described in Note 3-f. A portion of these balances (approximately 37%) was billed to customers, mainly in the euro zone. At 31 December 2006, the main balances were with RENFE, Il Comune Di Roma and Atac, Spa., amounting to EUR 42,680 thousand, EUR 33,249 thousand and EUR 13,759 thousand, respectively. The accounts receivable in foreign currency include mainly those relating to the work performed for Enterprise Metro D'Alger and Sacramento Regional Transit amounting to an equivalent of EUR 30,026 thousand and EUR 2,330 thousand, respectively. At 31 December 2005, the main balances were with RENFE and with Il Comune Di Roma amounting to EUR 22,375 and EUR 26,311 thousand, respectively, and the main foreign currency balances related to the work performed for the Algerian Société Nationale des Transports Ferroviaires and Sacramento Regional Transit amounting to EUR 15,316 thousand and EUR 2,725 thousand, respectively.

13. Current investments

The detail of "Current Investments" at 31 December 2006 and 2005 is as follows:

	Euros	
	31.12.06	**31.12.05**
Time deposits	210,810,433	30,082,884
Foreign currency deposits	6,316,710	2,414,068
Other deposits (Note 16)	41,878,603	—
Other	1,917	23,117
Rights under the share ownership scheme (Note 9)	2,539,615	1,510,384
Allowance (Note 9)	(478,464)	(478,464)
	261,068,814	**33,551,989**

The "Other Deposits" balance includes the undrawn balance of the financing received as a result of the Suburban Railway Project (see Note 16). This undrawn amount is maintained in the Suburban Railway Master Trust as restricted cash (see Note 7).

14. Equity

a) Share capital of the Parent

At 31 December 2006 and 2005, the Parent's share capital consisted of 3,428,075 fully subscribed and paid book-entry shares at EUR 3.01 par value each, all of which are listed on the stock exchange.

The shareholder companies or entities holding over 10% of the Parent's share capital at 31 December 2006 were as follows:

	% of Ownership Interest
Cartera Social, S.A. (Notes 9 and 13) (*)	24.55%
Gipuzkoa Donostia Kutxa	11.00%
Bilbao Bizkaia Kutxa	10.82%
Bestinver Gestion, S.A., S.G.I.I.C.	10.29%

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

At the Annual General Meeting on 7 June 2003, the shareholders resolved to empower the Board of Directors of the Parent to increase share capital by up to EUR 5,129,253 within five years on one or several occasions, respecting the pre-emptive subscription right. This authorisation has not yet been used. Also at the Annual General Meeting on 10 June 2006, the shareholders empowered the Board of Directors to acquire treasury shares within 18 months from that date. At the date of preparation of these consolidated financial statements this acquisition had not been made.

b) Share premium

The Consolidated Spanish Companies Law expressly permits the use of the share premium account balance to increase capital and does not establish any specific restrictions as to its use.

c) Revaluation reserve

The changes in this reserve in 2006 and 2005 were as follows:

	Thousands of Euros				
	01.01.05	**Change in Market Value**	**31.12.05**	**Change in Market Value**	**31.12.06**
Revaluation of property, plant and equipment:					
Land	28,517	—	28,517	(42)	28,475
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**	**(42)**	**56,509**

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

d) Legal reserve

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

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

The detail, by company, of their contribution to “Reserves of Fully Consolidated Companies and Companies Accounted for Using the Equity Method” in the consolidated balance sheets at 31 December 2006 and 2005 and to consolidated profit in 2006 and 2005 is as follows:

	Euros			
	2006		2005	
	Reserves	Results	Reserves	Results
CAF, S.A.	99,997,462	32,500,817	90,531,895	13,0572,150
Trenes de Navarra, S.A.U.	—	(107,173)	—	—
Construcciones Ferroviarias de Madrid, S.L.	(35,951)	(399,061)	—	(35,951)
Construcciones Ferroviarias CAF-Santana, S.A.	(241,980)	50,196	—	(246,023)
CAF USA, Inc.	792,958	436,857	681,893	98,010
CAF México, S.A. de C.V.	2,400,239	157,975	238,271	1,934,585
CAF Brasil Ind. e C., S.A.	897,980	672,699	(30,500)	1,891,308
CAF Argentina, S.A.	108,370	268,985	214,853	300,685
CAF Irlanda, Ltda.	142,455	157,911	(547)	143,003
CAF Italia, S.R.L.	(4,384)	19,303	—	(4,384)
Subgroup CAF I+D	1,032,980	479,165	436,354	257,097
Subgroup Sermanfer	465,612	319,780	265,246	200,802
Inversiones en Concesiones Ferroviarias, S.A.	215,915	(1,543)	212,979	2,937
Urbanización Parque Romareda, S.A.U.	53,570	11,908	46,121	7,449
Ferrocarriles Suburbanos, S.A. de C.V.	(123,751)	31,096	—	(123,751)
Constructora del Ferrocarril Suburbano, S.L.U.	(9,262)	68,382	—	(9,297)
Constructora Mex. del Fer. Sub., S.A. de C.V.	—	(250,405)	—	—
Sab Ibérica, S.A.	366,213	221,806	304,854	154,766
A.A.I. CAF Transit, LLC	(*)	(*)	(*)	(*)
Other	—	—	(380)	—
	106,058,426	34,638,698	92,901,039	18,143,386

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

f) Restricted reserves

The individual financial statements of the consolidated companies include reserves amounting to approximately EUR 39,371 thousand and EUR 39,406 thousand at 31 December 2006 and 2005, respectively, relating to the legal reserve, revaluation reserve, reserve for retired capital and other reserves which are restricted as to their use.

In view of the balance of the Parent's unrestricted reserves at 31 December 2006 with respect to the unamortised balance of development expenditure (see Note 7), there are no restrictions on the distribution of dividends.

g) Translation differences

The breakdown, by company, of "Translation Differences" at 31 December 2006 and 2005 is as follows:

	Euros	
	31.12.06	**31.12.05**
CAF México, S.A. de C.V.	(127,757)	367,537
CAF Brasil Ind. e C., S.A.	641,904	726,394
CAF Argentina, S.A.	(103,896)	76,770
CAF USA, Inc.	(11,520)	(1,905)
CAF Irlanda, Ltda.	8,361	971
Subgroup Sermanfer	(15,227)	(6,077)
Ferrocarriles Suburbanos S.A. de C.V.	3,599,014	—
Constructora de Mex. del Fer. Sub, S.A. de C.V.	(34,152)	—
	3,956,727	**1,163,690**

h) Valuation adjustments

The amount recognised in this reserve relates to the valuation adjustments on derivatives designated as cash flow hedges.

i) Minority interests

The detail of the balance of "Equity - Minority Interests" on the liability side of the accompanying consolidated balance sheets and of the changes therein in 2006 and 2005 is as follows:

	Euros
Balance at 1 January 2005	1,958,626
Profit attributable to minority interests	36,828
Changes in the scope of consolidation	663,171
Balance at 31 December 2005	**2,658,625**
Profit attributable to minority interests	11,762
Balance at 31 December 2006	**2,670,387**

15. Other non-current financial liabilities

Under the Programme to Foster Research and Technology (PROFIT), the Ministry of Science and Technology granted certain aid to the Group to conduct research and development projects in the period from 2006 to 2005. This aid, which is recognised on the date it is effectively collected or, if applicable, when collected by the coordinator of the joint project, consists of:

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

– Refundable advances in the form of interest-free loans, which usually have an initial grace period of three years and are taken to income in a period of over 10 years.

The CDTI Resolution dated 28 October 2005 (Official State Gazette "BOE" of 2 November 2005) regulating the official announcement of the CENIT programme states that aid is envisaged under the CENIT programme in the form of grants aimed at financing major industrial research projects of a strategic nature, of large scale and with far-reaching scientific and technical scope.

On 21 March 2006 the Group, as leader of the consortium created with other companies in this connection, received the Provisional Resolution Proposal drawn up by the Industrial Technological Development Centre (CDTI), awarding it grants totalling EUR 9,605 thousand (EUR 6,734 thousand relating to the CAF Group) for the development of new technology for 2006-2009. Each of the companies forming the consortium participates in the various phases of the project, together with the related subcontracting to technological centres. The CAF Group expects to incur total costs over the programme period of EUR 14,451 thousand, and the costs incurred to date amount to EUR 2,300 thousand. At 31 December 2006 the amount received in relation to the CENIT programme totalled EUR 1,375 thousand (see Note 11).

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

The changes in 2006 and 2005 were as follows:

	Euros
	Ministry of Science and Technology
Balance at 01/01/2005	**65,639,555**
Additions	1,939,636
Transfers to current liabilities (Notes 19 and 20)	(5,942,154)
Balance at 31/12/2005	**61,637,037**
Additions	1,741,928
Transfers to current liabilities (Notes 19 and 20)	(5,132,563)
Balance at 31/12/2006	**58,246,402**

The detail of current accounts payable is included in Notes 19 and 20.

In joint projects, the project coordinator is answerable to 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 recognised EUR 5,687 thousand under "Trade and Other Receivables" and EUR 20,592 thousand under "Trade and Other Payables" (31 December 2005: EUR 5,826 thousand and EUR 20,763 thousand, respectively) relating to amounts receivable from and payable to third parties in connection with joint projects.

At 31 December 2006, the maturity schedule was as follows:

	Thousands of Euros
2008	6,372
2009	5,956
2010	6,291
2011	6,237
2012 and subsequent years	33,390
	58,246

At 31 December 2006 and 2005, the Group recognised EUR 14,471 thousand and EUR 548 thousand, respectively, under "Other Non-Current Financial Liabilities" relating to contributions to external funds to cover the Group's legal and contractual obligations to certain of its employees (see Note 3-k).

16. Bank borrowings

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

	Euros		
	2006		2005
	Non-Current Maturity	**Current Maturity**	**Current Maturity**
Bank loans and credit accounts	96,709,370	243,137	—
Unmatured accrued interest	—	26,873	184,805
Total	**96,709,370**	**270,010**	**184,805**

Under IAS 39, the payables to credit institutions are presented in the balance sheet adjusted by the costs incurred in the arrangement of the loans.

All the loans and credit facilities bear interest at market rates, tied mainly to EURIBOR plus a spread, except for that indicated subsequently.

In 2006, the subsidiary Ferrocarriles Suburbanos, S.A. de C.V. (see Note 7) arranged two loans with Banco Santander, S.A. the terms and conditions of which are as follows:

– VAT loans for a maximum amount of MXP 250 million, earmarked to finance partially or in full any VAT payment. The duration of this loan was established at 30 months from 24 July 2006, and the interest rate was set at the Equilibrium Interbank Interest Rate published by the Bank of México + 1.25%. Each amount drawn down must be repaid within 90 calendar days from the date of each drawdown. At 31 December 2006 the amount drawn down on this loan totalled EUR 8,362 thousand (MXP 119,114 thousand).

– Financing agreement for a maximum amount of EUR 217 million (MXP 3,414 million) in relation to the application of forward exchange rates, by paying interest based on the progress of construction at a rate previously established in the financing agreement. The loan will be repaid in 28 half-yearly payments from 28 June 2008. At 31 December 2006 the amount drawn down thereon totalled EUR 88,323 thousand (MXP 1,258,159 thousand).

The subsidiary will continue to draw down the funds on these loans in accordance with the financing requirements of the Suburban Railway Project (see Note 7).

The undrawn amount is held in the Suburban Railway Master Trust (see Note 7) and is recognised as restricted cash under the heading "Current Investments" in the accompanying consolidated balance sheet (see Note 13).

These long-term loans include certain restrictive clauses limiting Ferrocarriles Suburbanos S.A. de C.V., inter alia, in respect of the acquisition of new banks loans, the granting of securities, tax payment obligations, the sale of non-current assets, the making of capital repayments and obliging it to maintain compliance with certain financial conditions, including, among others, the ratio of total liabilities to equity. At 31 December 2006, the subsidiary was complying with all these conditions.

The two aforementioned loans of the subsidiary Ferrocarriles Suburbanos, S.A. de C.V. are without recourse for the company's shareholders ("project finance"). The VAT loan is secured by the refunds to be made by the Mexican tax authorities of the VAT borne during the construction, which is not offset by VAT charged since none was charged during this period. The financing of EUR 217 million was secured by a contingent debt servicing fund amounting to USD 115 million, paid in cash by the Mexican Federal Fund FINFRA into the trust controlling the global cash department of Ferrocarriles Suburbanos, S.A. de C.V.

The repayments envisaged under the financing agreement are as follows:

	Thousands of Euros
2008	17,122
2009	17,122
2010	17,122
2011	17,122
Subsequent	19,835
TOTAL	**88,323**

At 31 December 2006, the consolidated companies had credit facilities at several financial institutions with an aggregate limit of EUR 179,005 thousand. The amount drawn down at that date was not material.

17. Derivative financial instruments

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

The breakdown of the balances of derivative financial instruments recognised in the consolidated balance sheet at 31 December 2006 is as follows:

	31.12.06 (Euros)	Maturity (in Currency) (*)		
	Current Assets	2007	2008	2009 and Subsequent Years
Hedge Accounting:				
USD exchange rate hedge	7,437,839	147,220,713	7,279,808	—
GBP exchange rate hedge	276,109	1,833,397	—	—
YEN exchange rate hedge	(4,463,962)	8,305,352,000	5,033,123,939	3,449,228,064
EUR exchange rate hedge	(70,385)	2,122,849	2,274,593	—
CHF exchange rate hedge	(343,927)	(1,431,591)	—	—
MXP exchange rate hedge	36,487	(141,885,976)	—	—
Exchange rate hedge for other currencies	15,914	—	—	—
	2,888,075			

(*) Net currency purchase exchange rate hedges are presented with a credit balance.

In 2006, the CAF Group charged approximately EUR 63 thousand (2005: EUR 3 thousand) to the consolidated income statement relating to the ineffective portion of the hedging transactions.

18. Deferred taxes

At 31 December 2006, the companies composing the CAF Group basically had the last four years open for review by the tax authorities for the main taxes applicable to them. In 2006 the Group was not subject to any tax audit or inspection.

The Parent files 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, an income tax rate of 32.6% was applied in 2006.

The conciliation of the Parent's accounting profit for 2006 and 2005 to the taxable profit for income tax purposes is as follows:

	Thousands of Euros	
	31.12.06	**31.12.05**
Accounting profit (before tax)	50,210	17,805
Permanent differences (Net), (Notes 3-d, 3-k, and 3-l)	18,637	6,719
Net increases and decreases arising on temporary differences and accelerated depreciation (Notes 3-d, 3-k, 7 and 20)	34,233	6,034
Deduction for investments to establish enterprises abroad	(25,770)	—
Taxable profit	**77,310**	**30,558**

The difference between the tax charge allocated to 2006 and the tax payable for that year, which is presented under "Deferred Tax Assets" and "Deferred Tax Liabilities" on the asset and liability sides of the accompanying consolidated balance sheet, arose as a result of the following:

– Temporary differences arising on the difference between the carrying amount of certain assets and their tax base. The most significant differences arose on the measurement of derivatives and the revaluation of assets.

– Temporary differences relating to 32.6% of the allowance for the rights under the share ownership scheme and to provisions that were not tax deductible in the year in which they were recognised.

– Temporary differences relating to 32.6% of the amount by which the depreciation taken for tax purposes exceeds that taken for accounting purposes as a result of the tax benefits relating to unrestricted and accelerated depreciation provided for by Guipúzcoa Regulations 6/1988, 7/1996 and 11/1993.

– The deduction for investments to establish enterprises abroad relates to the investment in Ferrocarriles Suburbanos, S.A. de C.V., which gave rise to a timing difference as a result of the divergence between the carrying amount and the tax base and, accordingly, the amount of the tax credit is to be included in taxable profit in equal amounts in the tax periods ending in the following four years.

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

	Thousands of Euros				
	31.12.05	**Additions**	**Disposals**	**Transfers**	**31.12.06**
Deferred tax assets:					
Non-tax deductible provisions	2,584	9,192	(2,145)	197	9,828
Share ownership scheme (Note 9)	1,409	911	(197)	—	2,123
Start-up expenses	216	334	(53)	—	497
Cash flow hedges (Note 17)	827	982	(827)	—	982
	5,036	**11,419**	**(3,222)**	**197**	**13,430**
Deferred tax liabilities:					
Unrestricted and accelerated depreciation (Note 7)	4,132	1,291	(3,019)	—	2,404
Cash flow hedges (Note 17)	503	595	—	—	1,098
Revaluation of land (Note 14)	13,730	43	—	—	13,773
Deduction for investments to establish enterprises abroad	—	7,216	—	—	7,216
	18,365	**9,145**	**(3,019)**	—	**24,491**

Also in 2006 the Group recognised EUR 4,257 thousand under "Non-Current Assets-Non-Current Financial Assets" for deferred tax assets arising on other items (see Note 9).

Also, the Group availed itself of tax credits amounting to EUR 11,443 thousand, of which EUR 6,000 thousand were capitalised under "Non-Current Financial Assets - Loans and Receivables" in the accompanying consolidated balance sheet at 31 December 2005. The difference between the income tax estimated and settled for 2005 gave rise to the final recognition of less tax assets amounting to EUR 54 thousand and a net reduction in the income tax expense of approximately EUR 680 thousand. Lastly, there were other items whose impact on the income tax expense for the year amounted to EUR 161 thousand.

At the date of preparation of these financial statements, the Guipúzcoa Provincial Government was in the process of approving an amendment to the income tax regulations, which would be applicable, on a general basis, for the tax periods commencing on or after 1 January 2007. This amendment envisages, inter alia, a reduction in the standard tax rate, which has not yet been defined but which, in principle, would be set at between 28% and 30%.

In addition to that indicated in Note 3-m, the Parent generated tax assets that will be recognised insofar as they can be used in subsequent years in accordance with the limits and terms established by current legislation.

For tax periods commencing on or after 1 January 2005, the Guipúzcoa Decree on Urgent Tax Measure, of 30 December, established, inter alia, a standard rate of 32.6%. This Decree has been partially contested and a ruling has not yet been handed down on the appeal.

The Parent is subject to the Guipúzcoa provincial tax laws.

Certain tax rules affecting Spanish corporation tax that were issued by the Guipúzcoa provincial government were appealed against and, decisions have already been handed down overturning some of them.

However, the directors consider that no material additional tax liabilities will arise for the Group as a result of the years open for review and the matters disclosed in the foregoing paragraphs.

19. Tax receivables and payables

The breakdown of "Tax Receivables and Payables" at 31 December 2006 and 2005 is as follows:

	Thousands of Euros							
	31.12.06				31.12.05			
	Tax Receivables		Tax Payables		Tax Receivables		Tax Payables	
	Non Current	Current	Non Current	Current	Non Current	Current	Non Current	Current
Social security	—	336,402	—	3,222,551	—	540,532	—	3,094,412
Tax authorities								
Value added tax	—	11,137,957	—	8,424,313	—	8,313,786	—	15,821,050
Other	—	1,042,039	—	591,033	—	598,262	—	195,325
Personal income tax withholdings	—	—	—	3,221,998	—	27,852	—	2,989,494
Spanish corporation tax (Note 3-m)	—	1,008,228	—	18,114,544	—	1,653,449	—	6,448,720
Grants receivable	—	1,797,715	—	—	—	—	—	—
Unused tax relief and tax credits (Notes 3-m and 9)	7,185,000	1,315,000	—	—	4,685,000	1,315,000	—	—
	7,185,000	**16,637,341**	**–**	**33,574,439**	**4,685,000**	**12,448,881**	**–**	**28,549,001**

20. Short-term provisions

The changes in "Short-Term Provisions" (see Note 3-o) in 2006 and 2005 were as follows (in euros):

	Warranty and Support Services, Penalties, etc. (Note 3.o)	Other Provisions (Notes 3.m, 3.o, 9, 15 and 19)
Balance at 01/01/2005	**13,572,782**	**10,383,716**
Net additions (Note 3-o)	7,564,800	8,157,559
Transfers	—	(158,373)
Balance at 31/12/2005	**21,137,582**	**18,382,902**
Net additions (Note 3-o)	49,851,154	204,710
Transfers	—	(7,266,367)
Balance at 31/12/2006	**70,988,736**	**11,321,245**

21. Expenses

a) Procurements

	Euros	
	2006	2005
Purchases (*)	326,617,784	380,704,636
Work performed by other companies	22,904,586	8,514,510
Change in inventories	(62,079)	7,043,113
	349,460,291	**396,262,259**

(*) 89.58% in euros, and the remainder mainly in US dollars.

b) Other operating expenses

The fees for the audit of the individual and consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. and subsidiaries amounted to EUR 403 thousand. EUR 335 thousand of this amount related to the annual audit of companies audited by member firms of the Deloitte worldwide organisation. In addition, fees were billed for other professional services amounting to EUR 320 thousand, of which EUR 300 thousand relate to the firm Deloitte.

c) Information on the environment

The most significant investments made in systems, equipment and facilities designed for environmental protection and improvement and included under property, plant and equipment (see Note 9) amounted to EUR 720 thousand in 2006 and EUR 291 thousand in 2005.

EUR 95 thousand of grants were received in this connection in 2006. In 2005 the Group did not obtain any environmental grants.

At 31 December 2006, the Group did not have any litigation in progress or contingencies relating to environmental protection and improvement. The Group companies' directors do not expect any material liabilities to arise as a result of the Group's environmental activities and, accordingly, the accompanying consolidated balance sheet does not include any provisions in this connection.

22. Average headcount and staff costs

The average headcount in 2006 and 2005 was as follows:

Professional Category	Average Number of Employees	
	2006	2005
Employees	1,208	1,150
Manual workers	2,808	2,688
Total (*)	**4,016**	**3,838**

(*) At 31 December 2006 and 2005, the Group had 4,141 permanent employees and 3,864 temporary employees.

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

	2006	2005
Wages and salaries (Notes 3-k, 3-l and 3-ñ)	143,536,050	117,632,976
Social security costs	37,100,895	34,410,283
Other costs (Note 3-k)	7,586,831	13,837,502
	188,223,776	**165,880,761**

23. Information on the Board of Directors

a) Directors remuneration and other benefits

In 2006, the Parent recognised approximately EUR 727 thousand of remuneration and attendance fees earned by its directors, whereas the directors of the subsidiaries did not earn any remuneration in this connection. At 31 December 2006, the Parent and the subsidiaries had granted no advances, guarantees or loans to current or former directors and, except as indicated in 3-k, the Group had no pension or life insurance obligations to them.

b) Detail of investments in companies engaging in similar activities and performance, as independent professionals or as employees, of similar activities by the directors, pursuant to Article 127 ter.4 of the Spanish Companies Law

The following members of the Board of Directors and their representatives had ownership interests in companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the company object of CAF:

– Caja de Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián (Gipuzkoa Donostia Kutxa) notified a 95% interest in Alquiler de Trenes, AIE, an interest grouping formed together with CAF (see Note 9) and confirmed that it holds no other equity investments in other entities with identical, similar or complementary activities.

The other members of the Board of Directors declared that they hold no investments in companies engaging in identical, similar or complementary activities, except for those held by certain directors in discharging their duties on behalf of the Parent (see Note 9), which are detailed below:

Company	Activity Performed	Positions or Functions at the Company Concerned	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 railway equipment	Chairman	José María Baztarrica
Construcciones Ferroviarias CAF-Santana, S.A.	Manufacture of railway equipment	Managing Director	Alejandro Legarda
Construcciones Ferroviarias de Madrid, S.L. (Sole-Shareholder Company)	Manufacture of railway equipment	Sole Director	José María Baztarrica
Ferrocarriles Suburbanos, S.A. de C.V.	Provision of all types of land transport services	Chairman	Alejandro Legarda
Constructora del Ferrocarril Suburbano, S.L.	Design and supply of railway line operating equipment	Chairman	Alejandro Legarda
Urbanización Parque Romareda, S.A.U. (Sole-Shareholder Company)	Ownership of shares	Sole Director	Alejandro Legarda
Sasismag, S.A. (Sole-Shareholder Company)	Preparation of operating manuals	Sole Director	Andrés Arizkorreta
Traintic, S.L.	Manufacture of electronic products	Sole Director	Andrés Arizkorreta
Ipar Sistemas 2002, S.L.	Holding company	Sole Director	Andrés Arizkorreta
CAF USA, Inc.	Manufacture of railway equipment	Chairman	José María Baztarrica
CAF México, S.A. de C.V.	Manufacture and maintenance of equipment	Chairman	José María Baztarrica
CAF Argentina, S.A.	Maintenance of railway equipment	Chairman	José María Baztarrica
CAF Irlanda, Ltda.	Maintenance of railway equipment	Sole Director	José María Baztarrica
CAF Italia, S.R.L.	Maintenance of railway equipment	Sole Director	José María Baztarrica
Constructora Mex. del Ferrocarril Suburbano, S.A. de C.V.	Design and supply of railway line operating equipment	Chairman	Alejandro Legarda
Trenes de Navarra, S.A.U.	Manufacture of railway equipment	Sole Director	Andrés Arizkorreta

24. Remuneration of senior executives

Since the senior executives of the Parent are also members of its Board of Directors, their staff costs (remuneration in cash or in kind, social security costs, etc.) were disclosed in Note 23 above.

In 2006 there were no other transactions with senior executives outside of the ordinary course of business.

25. Guarantees and other contingent liabilities

At 31 December 2006, the guarantees provided by financial institutions to the Group for customers to secure the performance of commercial transactions amounted to EUR 1,238,018 thousand (31 December 2005: EUR 876,861 thousand). Of this amount, EUR 127,401 thousand related to guarantees for the refundable grants and advances granted by the Ministry of Science and Technology (see Note 15) and other public-sector institutions. Also, of this total, EUR 20,187 thousand secure the funds paid in advance by FINFRA to the subsidiary Ferrocarriles Suburbanos, S.A. de C.V. (see Note 7) and EUR 33,106 thousand secure the contribution of venture capital to this subsidiary.

In 2006, the CAF Group identified no material contingent liabilities.

26. Events after the balance sheet date

At 31 December 2006, the backlog, net of progress billings, amounted to approximately EUR 3,315,317 thousand (see Note 11). At 28 February 2007 this amount was EUR 3,170,454 thousand.

27. Explanation added for translation to English

These consolidated financial statements are presented on the basis of IFRSs as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.

Approval by the Board of Directors

JOSÉ Mª BAZTARRICA GARIJO	Chairman and CEO
ANDRÉS ARIZKORRETA GARCÍA	Chief Executive Officer
ALEJANDRO LEGARDA ZARAGÜETA	Managing Director
JOSÉ IGNACIO BERROETA ECHEVARRIA	Director for Bilbao Bizkaia Kutxa
GREGORIO ROJO GARCÍA	Director for Vital Kutxa
JOSÉ ANTONIO MUTILOA IZAGIRRE	Director for Gipuzkoa Donostia Kutxa
LUIS MIGUEL ARCONADA ECHARRI	Director
JOSÉ MIGUEL DE LA RICA BASAGOITI	Director
FERMÍN ARRESE ARRATIBEL	Director
XABIER GARAIALDE MAIZTEGUI	Director
ALFREDO BAYANO SARRATE	Secretary

Certificate issued by the Secretary attesting that, following the authorisation for issue of the consolidated financial statements and consolidated directors' report of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. and Subsidiaries composing the CAF Group (Consolidated) for the year ended 31 December 2006, by the Board of Directors at its meeting on 28 March 2007 (the consolidated financial statements for the year ended 31 December 2005, had been duly formalised in the past), the directors have signed this document, consisting of 59 sheets numbered sequentially from 2,149 through 2,207, all approved by the Secretary, who also signs them, countersigned by the Chairman and signed by each of the directors at the end of the document.

San Sebastián, 28 March, 2007

Approved by

THE CHAIRMAN	THE SECRETARY OF THE BOARD
JOSÉ Mª BAZTARRICA GARIJO	ALFREDO BAYANO SARRATE

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

Ordinary Shareholders' Meeting to be held at the Company's registered office in Beasain, Guipúzcoa, at 12.00 am on June 2 2007, at first call, and, if appropriate, at the same time and place the following day.

First. Examination and approval, if appropriate, of the 2006 financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A., and of the 2006 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 2006 income, with a distribution of dividends for a gross amount of €3.20 per share.

Third. 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 10 June 2006.

Fourth. Re-election of auditors.

Fifth. 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.

Sixth. Approval of the minutes of the meeting.

Proposed distribution of income

Distribution of income after taxes of 42,020 thousands of Euros: 10,970 thousands of Euros for dividends, 31,050 thousands of Euros to voluntary reserves.

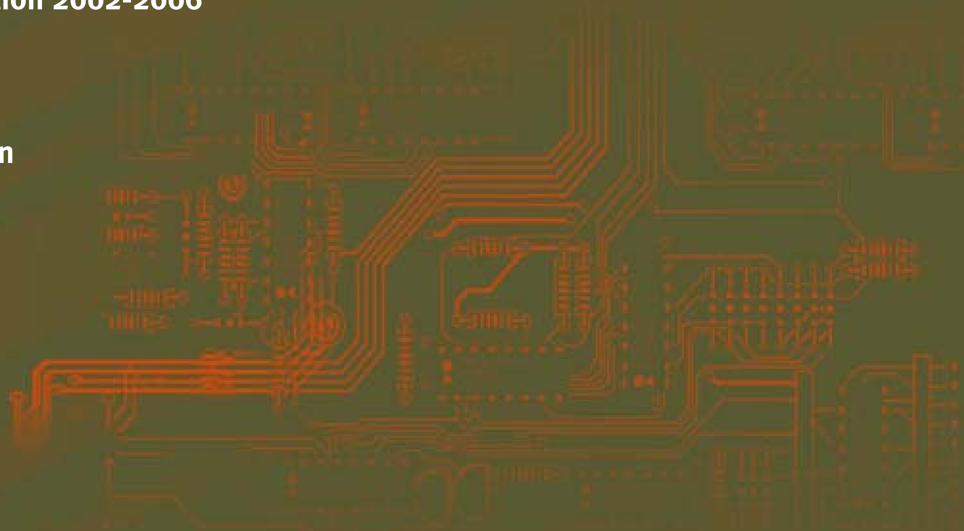
Board of Directors

JOSÉ Mª BAZTARRICA GARIJO	Chairman and CEO
ANDRÉS ARIZKORRETA GARCÍA	Chief Executive Officer
ALEJANDRO LEGARDA ZARAGÜETA	Managing Director
JOSÉ IGNACIO BERROETA ECHEVARRIA	Director for Bilbao Bizkaia Kutxa
GREGORIO ROJO GARCÍA	Director for Vital Kutxa
JOSÉ ANTONIO MUTILOA IZAGIRRE	Director for Gipuzkoa Donostia Kutxa
LUIS MIGUEL ARCONADA ECHARRI	Director
JOSÉ MIGUEL DE LA RICA BASAGOITI	Director
FERMÍN ARRESE ARRATIBEL	Director
XABIER GARAIALDE MAIZTEGUI	Director
ALFREDO BAYANO SARRATE	Secretary

At 28 March 2007 the Board of Directors held 24.83% of the capital stock.

Supplementary Information 2002-2006

Balance Sheets
Statements of Income
Stock market Information



Balance Sheets

as of December 31st 2006, 2005, 2004, 2003* and 2002* (Euros)

Assets	**2006**	**2005**	**2004**	**2003***	**2002***
Non-current assets:					
Start-up expenses	—	—	—	45,288	119,728
Other intangible assets, net	101,288,883	12,632,530	14,119,310	17,596,420	14,205,971
Property, plant, and equipment, net	155,609,574	146,408,693	138,020,380	81,420,454	75,788,292
Investments in associates	835,038	728,812	847,250	439,778	469,099
Non-current financial assets	34,354,571	27,704,769	19,439,557	16,610,012	8,554,405
Deferred tax assets	13,430,075	5,035,632	1,111,286	1,730,018	2,023,464
Total non-current assets	305,518,141	192,510,436	173,537,783	117,841,970	101,160,959
Current assets:					
Deferred charges	—	—	—	—	9,959,326
Inventories	50,893,181	67,389,443	15,789,726	29,452,853	64,218,845
Trade and other receivables	402,123,753	324,952,312	432,941,127	319,301,588	260,370,470
Receivable from associated companies	54,234	3,433	17,896	932,444	7,905,597
Other current financial assets	2,712,565	1,575,711	603,464	2,773,568	3,091,648
Derivative financial instruments	6,877,996	5,672,599	—	—	—
Short-term investments	261,068,814	33,551,989	23,679,429	49,815,394	3,766,493
Tax receivables	16,637,341	12,448,881	9,464,363	5,718,570	4,623,438
Cash and cash equivalents	9,898,296	1,903,693	1,434,482	3,226,237	810,362
Other current assets	819,940	580,316	456,633	315,002	761,531
Total current assets	751,086,120	448,078,377	484,387,120	411,535,656	355,507,710
Total Assets	1,056,604,261	640,588,813	657,924,903	529,377,626	456,668,669

* 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	2006	2005	2004	2003*	2002*
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	56,508,846	56,551,093	56,551,093	28,034,368	28,034,368
Reserves at fully consolidated companies and companies accounted for by the equity method	106,058,426	92,901,039	83,264,234	77,949,849	74,390,286
Translation differences	3,956,727	1,163,690	(59,288)	(2,750,817)	(4,367,890)
Equity adjustments due to changes in fair value	16,234	(984,460)	—	—	—
Net profit for the year	34,638,698	18,143,386	14,038,123	11,605,548	9,838,103
Equity attributable to the Parent Company	**223,360,784**	**189,956,601**	**175,976,015**	**137,020,801**	**130,076,720**
Minority interests	**2,670,387**	**2,658,625**	**1,958,626**	**1,879,346**	**2,849,061**
Total equity	**226,031,171**	**192,615,226**	**177,934,641**	**138,900,147**	**132,925,781**
Non-current liabilities:					
Deferred revenues	—	—	—	**5,014,021**	**16,246,338**
Long-term provisions	**1,301,422**	**1,362,416**	**1,225,961**	**830,969**	**1,323,572**
Payable to credit institutions	**96,709,370**	**37,307**	**82,035**	—	—
Derivative financial instruments	**3,989,921**	**221,052**	—	—	—
Other long-term liabilities	**79,896,655**	**62,185,062**	**66,551,837**	**47,363,700**	**37,752,011**
Deferred tax liabilities	**24,491,394**	**18,365,236**	**16,290,365**	**2,432,730**	**1,891,966**
Other non-current liabilities	—	**1,065,000**	**103,337**	**2,104,850**	—
Total non-current liabilities	**206,388,762**	**83,236,073**	**84,253,535**	**52,732,249**	**40,967,549**
Current liabilities:					
Payable to credit institutions	**270,010**	**184,805**	**148,653**	**47,197**	**322,839**
Derivative financial instruments	—	**70,943**	—	—	—
Other current financial liabilities	**18,721,553**	**16,031,736**	**11,326,433**	**13,939,818**	**1,933,600**
Payable to associated companies	**939,879**	**595,993**	**2,832,918**	**1,329,363**	**324,306**
Trade and other payables					
Advances received on orders	249,166,941	115,849,837	172,906,288	133,407,850	133,314,097
Trade payables purchases and services	223,742,192	153,203,784	154,280,807	140,998,531	95,176,233
	472,909,133	**269,053,621**	**327,187,095**	**274,406,381**	**228,490,330**
Short-term provisions	**82,309,981**	**39,520,484**	**23,956,498**	**23,574,121**	**16,666,957**
Other payables					
Taxes payable	33,574,439	28,549,001	20,789,189	7,023,780	11,030,541
Other current liabilities	15,459,333	10,730,931	9,495,941	12,410,549	7,760,428
	49,033,772	**39,279,932**	**30,285,130**	**19,434,329**	**18,790,969**
Total current liabilities	**624,184,328**	**364,737,514**	**395,736,727**	**332,731,209**	**266,529,001**
Equity and liabilities	**1,056,604,261**	**640,588,813**	**657,924,903**	**529,377,626**	**456,668,669**

Statements of Income

as of December 31st 2006, 2005, 2004, 2003* and 2002* (Euros)

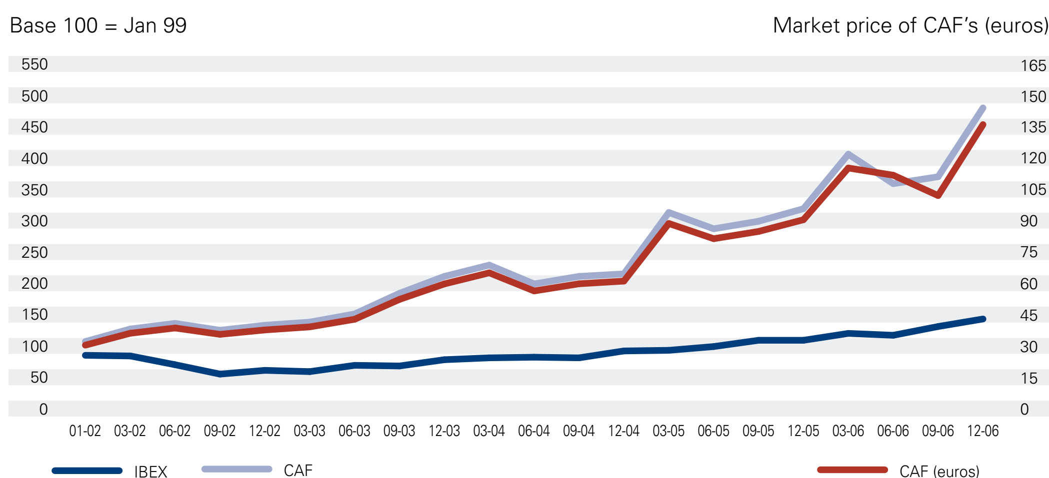
(Debit) Credit	**2006**	**2005**	**2004**	**2003***	**2002***
Continuing operations:					
Net sales	805,727,489	680,798,488	578,012,441	495,479,207	392,488,865
+ / - Change in finished goods and work-in-progress inventories	(82,481,259)	268,750	(52,454,882)	(79,804,672)	(10,521,520)
Raw materials and other consumables used	(349,460,291)	(396,262,259)	(284,154,227)	(195,072,687)	(195,035,331)
Other operating revenues	1,168,225	886,785	751,638	1,685,542	3,369,288
Personnel expenses	(188,223,776)	(165,880,761)	(152,155,231)	(133,177,214)	(118,095,336)
Other operating expenses	(125,849,385)	(79,908,049)	(57,283,347)	(60,323,417)	(46,442,798)
Depreciation and amortization expenses	(18,019,073)	(16,599,384)	(15,178,859)	(13,458,120)	(11,909,667)
Operating income	**42,861,930**	**23,303,570**	**17,537,533**	**15,328,639**	**13,853,501**
Financial revenues	1,624,829	4,883,652	2,989,354	3,323,119	5,702,974
Financial expenses	(2,897,796)	(5,768,806)	(3,063,815)	(4,535,016)	(7,313,922)
Financial loss	**(1,272,967)**	**(885,154)**	**(74,461)**	**(1,211,897)**	**(1,610,948)**
Share in the income of companies accounted for by the equity method	297,788	204,558	216,954	213,501	242,822
Other gains and losses (net)	632,726	26,547	(215,300)	73,186	83,488
Income before tax	**42,519,477**	**22,649,521**	**17,464,726**	**14,403,429**	**12,568,863**
Corporate income tax	(16,369,017)	(8,880,797)	(5,420,251)	(3,819,985)	(8,606,613)
Positive adjustments to income tax	8,500,000	4,411,490	2,056,470	1,062,310	6,000,000
Income from continuing operations	**34,650,460**	**18,180,214**	**14,100,945**	**11,645,754**	**9,962,250**
Income for the year	**34,650,460**	**18,180,214**	**14,100,945**	**11,645,754**	**9,962,250**
Attributable to:					
Shareholders of the Parent Company	34,638,698	18,143,386	14,038,123	11,605,548	9,838,103
Minority interests	11,762	36,828	62,822	40,206	124,147
Earning per share (in euros)					
Basic	10.10	5.29	4.10	3.39	2.87
Diluted	10.10	5.29	4.10	3.39	2.87

* 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, 2006, 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



	2006*	2005*	2004*	2003	2002
Stock market capitalization					
Figures as of December 31	466,218,200	312,983,248	212,540,650	202,599,233	127,695,794
Per-share data					
Net earnings per share	10.10	5.29	4.10	3.39	2.87
Net income before taxes	12.40	6.61	5.09	4.20	3.67
Dividend per share	3.20	1.60	1.37	1.09	1.09
Per-share net book value	65.16	55.41	51.33	39.97	37.94
Stock market ratios					
PER	11.14	15.38	14.60	13.56	12.58
Average price/EBITDA	6.25	6.96	6.28	5.42	4.69
MV/BV (average price/book value)	1.73	1.47	1.16	1.15	0.95
Dividend yield	2.84%	1.97%	2.29%	2.37%	3.02%
Pay-out	31.67%	30.23%	33.46%	32.20%	37.98%

Consolidated data 2002, 2003.

* 2004, 2005 and 2006 consolidated data, IAS.

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