ANNUAL REPORT

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

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ANNUAL REPORT 2010

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

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

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

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

LETTER FROM THE CHAIRMAN

Dear shareholders,

As in previous years, it is a pleasure for me to present to you the Directors' Report and Financial Statements, which describe in detail the business activities carried on by the CAF Group in 2010, which most notably include the matters summarised below.

Against a truly uncertain global economic backdrop, CAF was able to achieve a satisfactory performance, demonstrating progress in the main business indicators.

Specifically, the Group's total sales amounted to EUR 1,576 million, a year-on-year increase of 25%. Profit after tax of the Parent Company amounted to EUR 129.6 million, up 4% on 2009. Ebitda increased, up 19% on 2009, to EUR 193.8 million and, in a similar vein, cash flow before tax amounted to EUR 168.5 million. Lastly, the backlog at 2010 year-end amounted to EUR 4,518.9 million, representing an all-time high for the Company.

In view of the foregoing, we submit for approval by the shareholders at the Annual General Meeting the proposal to distribute a dividend of EUR 10.5 per share, the same figure as last year.

These results are the combined result of the intense commercial activity carried out, the efficient performance of our industrial operations and the positive effect of some of our most significant innovation projects, the purpose of which is none other than to provide our customers with innovative solutions to meet their needs.

In 2010 our OARIS platform was presented, the CAF Group's contribution to the high speed rail industry which, in addition to service speeds of 350 km/h, offers each customer a high degree of adaptability and also meets at all times the criteria for energy efficiency and respect for the environment.

Also noteworthy was the entry into commercial service, specifically in the Metro Centro service in Seville, of one of the first tram units equipped with quick charge accumulator (ACR) systems, an innovative solution enabling any type of electrical connection (either overhead lines or cables along the ground) between stops to be done away with, facilitating to a large degree the integration of tram systems in the urban area. This solution, subsequently deployed in Zaragoza, where several units are already using this technology in service, will surely win over new customers, including export markets.

With regard to the most significant projects obtained in 2010, noteworthy in the Spanish market were the contracts from the Autonomous Community Government of Andalusia for 13 trams fitted with the ACR system for the Granada metropolitan system and the extension of the current orders with Serveis Ferroviaris de Mallorca and Ferrocarriles de Vía Estrecha (FEVE), which

awarded CAF the entire manufacture of the 2900 and 2700 series, with 12 and 5 units, respectively.

As regards export contracts, particular mention should be made of the supply of trams to Stockholm, Nantes and Besançon, of 15, 8 and 19 units, respectively, CAF's first foray into the important Swedish and French markets. Also within Europe, the awarded contracts to supply eight electricity-powered Civity units to the Veneto region, and five diesel units equipped with an active tilt system (SIBI) for the island of Sardinia, consolidate our presence in Italy following our previous successful achievements in the Rome underground.

Of equal note were the contracts won in various American markets, such as Mexico, where we were able to consolidate our presence by entering into a contract for the supply of 30 trains for the new line 12 of the Collective Transport System in Mexico City, under a new operating lease formula that includes full maintenance of the units during the first 15 years of service.

Also, in Brazil we received, once again, signs of confidence in CAF's abilities, being awarded two important contracts in the country. The first, which includes the supply of 15 electric units in the city of Recife, extends our relationship with international customers. The second, aiming to modernise the rolling stock of line 8 of the Companhia Paulista de Trens Metropolitanos in São Paulo, stands out due to its high volume, as it includes the manufacture of 36 new electric trains and the maintenance of the fleet over the next 20 years.

Following various projects with city authorities in the US, Amtrak, the leading operator in the country, entrusted us with the contract to manufacture a total of 130 long-distance cars of various types (sleeper cars, restaurant cars, luggage cars and mixed sleeper/luggage cars), which we trust will be just the beginning of a fruitful partnership with this operator.

Lastly, mention must be made of winning our first contract in Venezuela, where we will supply a total of 48 trains for the Caracas metro.

In addition to the foregoing is the consolidation of our wheelset and maintenance activities which now account for a significant portion of our backlog.

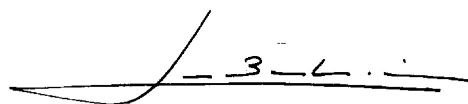
In line with the commercial and technological activity mentioned, worthy of notes is the performance of industrial activity in 2010. A total of 1,174 cars left our plants for customers which, together with the 1,954 finished bogies, are the highest production figures achieved by CAF and demonstrate a high level of adaptability of our production line in view of the increasing complexity of the backlog.

The increase in revenue, profit and backlog and the favourable outlook for the railway industry, underpinned by ambitious infrastructure development plans in countries such as the US, South Africa and Brazil and the considerable contribution following the recent publication of the EU white paper on transport, encourage us to continue in our search for new business opportunities which, undoubtedly, will present themselves to us. This must be done with continuing caution and effort that will enable us to progressively improve our competitive position in the medium and long term.

Given the importance of the effort and dedication shown by everyone who works at the CAF Group to obtain these results and meet our challenges, I would like to thank you and also encourage you to carry on working with renewed enthusiasm and greater dedication, if possible, towards building our future.

I would also like to extend my thanks to you, our shareholders, for your on-going support and trust in us. This is an important recognition of our work and is the best incentive for all of us to endeavour that the CAF Group continues to improve.

Thank you,



José María Baztarrica Garijo
Chairman and CEO

CAF

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

MAIN LINES

HIGH SPEED TRAINS

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

INTERCITY TRAINS

- Tilting System ADR Trains
- Diesel trains for Algeria
- Intercity, Push-Pull Service
- Trains for Saudi Arabia
- Sardinia diesel trains
- Northern Ireland trains
- US trains

PASSENGER CARS

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

CITY/SUBURBANS

REGIONAL TRAINS

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

SUBWAY TRAINS

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

ARTICULATED LIGHT RAILWAY

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

STREETCARS

- Antalya
- Belgrade
- Besançon
- Bilbao
- Edinburgh
- Stockholm
- Granada
- Lisbon
- Nantes
- Seville
- Valencia
- Vélez-Málaga
- Vitoria
- Zaragoza
- Cádiz-Chiclana

2010 DIRECTORS' REPORT OF THE CONSOLIDATED GROUP

EARNINGS

The income statement shows profit attributable to the Parent of EUR 129,624 thousand, up approximately 4% on 2009.

The aggregates in 2010 were as follows:

• Profit attributable to the Parent after tax amounted to EUR 129,624 thousand, up approximately 4% on the figure in 2009, which stood at EUR 123,343 thousand.

• The depreciation and amortisation charge of EUR 38,647 thousand, plus the profit for the year before tax, generated a cash flow of EUR 168,464 thousand, representing an increase of approximately 15% on the figure in 2009, which amounted to EUR 147,007 thousand.

• EBITDA totalled EUR 193,823 thousand, up approximately 19% on 2009 (EUR 162,646 thousand).

• Revenue amounted to EUR 1,576,307 thousand in 2009, up 25% on 2009.

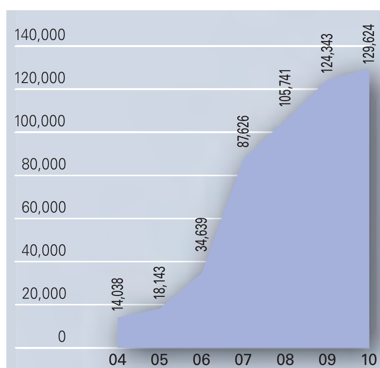
• The backlog amounted to EUR 4,518,903 thousand at 31 December 2010, which is higher than the 2009 year-end figure and will enable the Group to continue its normal business activities.

• The proposal for the distribution of earnings is in line with the policy of prior years of strengthening the Company's equity. It is proposed to use EUR 35,995 thousand of the profit to pay dividends and to allocate EUR 76,655 thousand to voluntary reserves, giving rise to a gross value of EUR 10.5 per share.

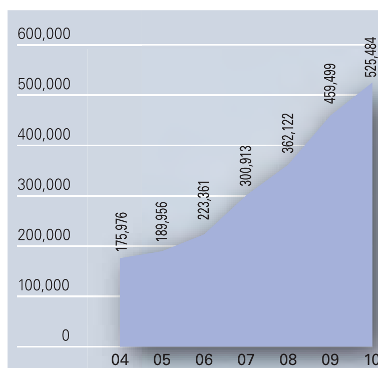
• If the proposed distribution of profit is approved, the profit allocated to reserves will raise the Group's equity to a total of EUR 525,484 thousand.

• Lastly, as required by law, CAF declares that neither it nor its subsidiaries purchased or held treasury shares in the course of 2010.

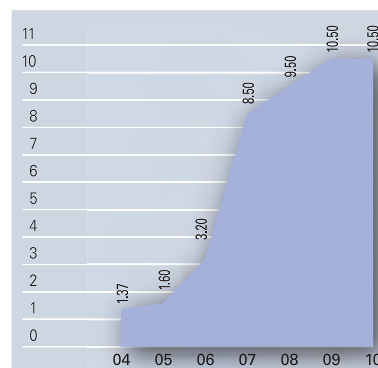
Profit attributable to the Parent
(thousand of euros)



Groups shareholder's equity
(thousand of euros)



Evolution of dividends/shares
(in euros)



COMMERCIAL ACTIVITY

At the end of 2010, the backlog amounted to EUR 4,518 million, an increase of more than 4% on 2009.
A high point in 2010 was the presentation of the OARIS platform, the CAF Group's contribution to high speed.

The positive trend in commercial activity in recent years continued in 2010 with the backlog reaching a new high of EUR 4,518 million at year-end, up more than 4% on 2009. This figure was achieved as a result of contracts of EUR 1,759 million.

2010 was noteworthy for the CAF Group's contribution to the high-speed train industry with the presentation of its OARIS platform. The platform consists of 4, 6 or 8 coaches, A/C current of 15 and 25 kV and/or 1.5 and 3 kV continuous current, speeds of up to 350 km/h, Iberian gauge, standard gauge and variable gauge, cross-border operability and energy efficient design, inter alia.

The Oaris platform was presented at the 7th International Rail Forum, with a full-scale model of the cabin and possible finishes for first class and the cafe area, becoming a centre of attention at the trade fair and a highlight of the 2010 edition. The first complete Oaris unit passed tests at the Beasain factory in the last quarter of 2009 and will shortly enter into operation.

Also of note in 2010 was the success of the commercial service provided by the trams fitted with the rapid charge accumulator (ACR) device. No incidents have been recorded since service began in May, and the trams have completed approximately 14,000 500-metre journeys on the Metro Centro route in Seville, which adds up to a total of 7,000 km travelled without the need to use overhead power lines.

In the Spanish market mention should be made of the contract with Ferrocarriles de la Junta de Andalucía for thirteen (13) trams to provide service in the metropolitan area of Granada. One aspect highlighted by Ferrocarriles de la Junta de Andalucía was the possibility that the equipment offers for use without overhead power lines, employing the ACR device as demonstrated by the Metro Centro service in Seville.

Existing orders were increased by Serveis Ferroviaris de Mallorca (SFM) and Ferrocarriles de Vía Estrecha (FEVE). In addition to its order of electrical units in the 8100 series, SFM ordered two (2) further units and eight motorised trailer cars. FEVE awarded CAF the full manufacturing contract for twelve (12) units in the 2900 series and five (5) in the 2700 series.

In Europe, of particular note were the contracts awarded in Sweden and France, two countries new to the portfolio. In both cases, these are contracts for the supply of trams, fifteen (15) for Stockholm, the Swedish capital, and eight (8) and nineteen (19), respectively, for Nantes and Besançon in France.

Also of note were the contracts obtained in Italy, where the Company has already supplied trains for the Rome underground. The contracts were for five (5) diesel units for the Italian island of Sardinia, equipped with the Intelligent Tilting System (SIBI), designed and tested by CAF, and eight (8) electric units for the Veneto region.

In the American market mention must be made of several awards and contracts, firstly the award by the Collective Transport System (STC) of Mexico City for the lease of thirty (30) trains of seven coaches for line 12, which is currently under construction. In addition to the lease of the trains for 15 years, the contract includes their full maintenance.

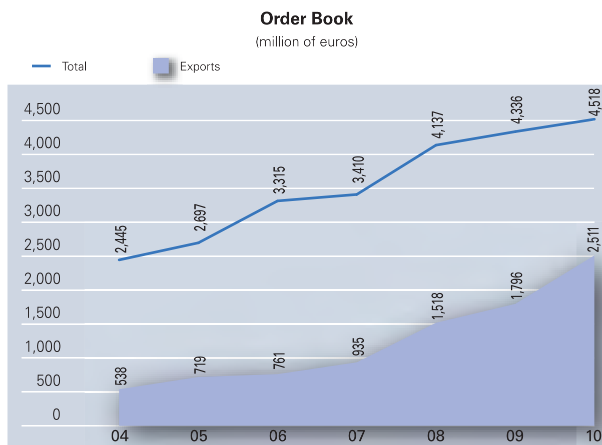
Two contracts were also entered into in Brazil, one with the Companhia Paulista de Trens Metropolitanos (CPTM) for the modernisation of moving stock of line 8 in São Paulo, which entails the provision of thirty-six (36) new trains and the maintenance of the fleet, and the other for the supply of fifteen (15) electric trains to provide service in the underground in the city of Recife, the capital of the state of Pernambuco.

In the United States Amtrak, the leading inter-regional operator in the country commissioned the manufacture of twenty-five (25) sleeper coaches, twenty-five (25) restaurant coaches, fifty-five (55) luggage coaches and twenty-five (25) cabin coaches (combining bunk and luggage space), a total of one hundred and thirty (130) coaches.

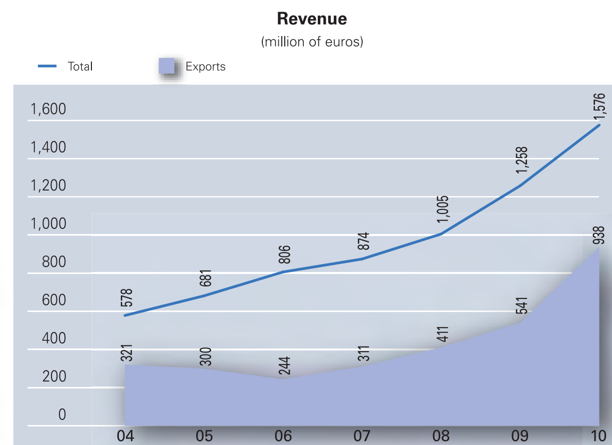
Lastly, a new market was opened up in the American continent with the contract for forty-eight (48) trains for service in the underground of the Venezuelan capital, Caracas.

Alongside the events and contracts described in this section, the consolidation and growth of the maintenance, concession and rolling stock activities continue which, taken together, account for a significant percentage of the backlog.

Order Book
(million of euros)



Revenue
(million of euros)



INDUSTRIAL ACTIVITY

1,174 different types of carriages; high-speed trains, commuter trains, middle distance trains, underground trains, trams, locomotives, trailer cars, among others, were the CAF Group's most significant products in 2010.

2010 saw the completion of various projects such as delivery of the last five of the additional nine units for the Rome underground, the last two trains of the contract for 12 high speed units for Turkey, the last nine units in the contract for 20 trains for the Chile underground, eight mixed-traction locomotives completing the contract for nine entered into with the private operator FESUR, the last five units of the contract for nine trains for Line A of the Mexico underground and the last 16 of 17 trains commissioned by the São Paulo underground. The manufacture of 29 high speed variable gauge trains for RENFE was completed with the delivery of the last four trains, as well as the eight trains commissioned for New Delhi airport.

In 2010 twelve electric-traction medium distance trains for RENFE, 16 trailer cars for the Bilbao underground, 28 of the 40 train units for the Compañía Paulista de Trenes Metropolitanos (CPTM) in the city of São Paulo, 32 trains for the Turkish city of Izmir, 17 suburban trains in the Civia IV series for RENFE and two trains for the STM in Mallorca were delivered. Also, five trains in Lots 3 and 14 for L1 and L2 of the Madrid underground, 19 diesel traction trains for RENFE and five high speed variable gauge trains (AVGL) for the same operator were completed. 20 trams for Edinburgh (Scotland) and 4 initial trams for the city of Zaragoza were completed and are ready for use. Also of note were the deliveries of the first units commissioned for the Caracas underground, the Istanbul underground and the extension of the Brussels underground for STIB.

Other projects in the course of manufacture include those well underway for the first trains for Northern Ireland and Euskotren, the four trams for Metro Centro (Seville), the tram for Malaga, the train-tram for the Bay of Cadiz, the train units for Saudi Arabia, the train units for the STM in São Paulo (Brazil) and the trains for Medellin (Colombia).

In engineering, design work has already started on the new projects for Sardinia, Recife (Brazil), Nantes, Besançon and trailer cars for Amtrak (US).

Of particular note in this section is the development and manufacture of the new OARIS train for speeds above 300 km/h which will come into service in 2011.

The most important manufacturing projects in 2010 were as follows:

NO. OF VEHICLES	
Santiago de Chile underground	81
Line A of Mexico underground	45
Sao Paulo (Brazil) underground	96
Commuter train for Compañía Paulista de Trenes Metropolitanos (CPTM)	216
Rome underground	24
AVR high-speed train for RENFE	16
Trailer cars for the Bilbao underground CTB	20
CIVIA IV commuter trains for RENFE	85
High-speed AVGL trains for RENFE	20
Middle-distance diesel units for RENFE	57
Middle-distance electric units for RENFE	60
Line locomotive for FESUR	8
Commuter trains for New Delhi airport (India)	48
Commuter trains for Izmir (Turkey)	96
Madrid underground, Lot 3	24
Madrid underground, Lot 3	4
Madrid underground, Lot 1	60
Madrid underground, Lot 2	16
Trams for Edinburgh (UK)	140
Commuter trains, Mallorca	3
Commuter trains, Mallorca	4
Caracas underground	7
Brussels STIB underground (Belgium)	6
Istanbul underground (Turkey)	4
Zaragoza trams	20
High-speed OARIS	4
Bicabin for FEVE	10
TOTAL	1,174

BOGIES	
With welded steel chassis (power car + trailer)	1,930
With cast steel chassis (power car + trailer)	24

ROLLING STOCK	
Conventionally assembled axles (power car + trailer)	7,363
Variable gauge assembled axles (power car + trailer)	110
Loose axle bodies	10,296
Wheels	43,047
Crane wheels	7
Brackets	1,256
Couplers	2,091
Diminishers	786
Rings	8

HUMAN RESOURCES

The Group's workforce increased in 2010. The increase occurred, in particular, in the international subsidiaries.

The consolidated group's labour force changed as follows:

	Permanent	Total	Annual Average
31-12-09	5,684	6,489	5,762
31-12-10	6,901	7,094	6,938

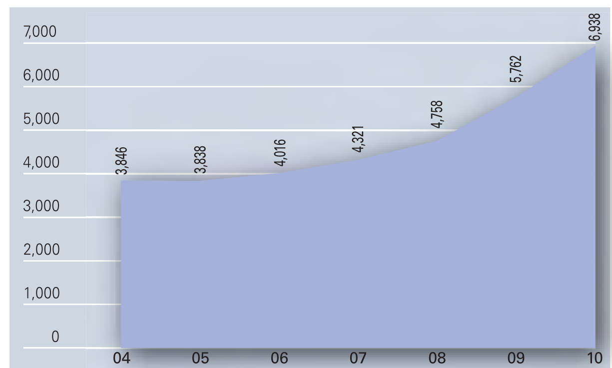
The companies' joint capacity increased noticeably in 2010.

This occurred in all the international subsidiaries.

Accreditation was achieved under the Occupational Risk Prevention Management System in line with the OHSAS 18000:2007 standard. The prevention working groups have been consolidating their activities in each area and workshop of the vehicles and rolling stock businesses.

The scheduled training activities were carried out, in accordance with the needs plan, placing particular attention on management skills and abilities.

Employees
(number of persons)



ENVIRONMENTAL ACTIVITY

CAF is continuing with implementation of the "Product Sustainability Function" and introducing eco-design methods in the engineering processes in order to optimise and control the environmental impact of its products from the design stage throughout their life cycle.

CAF, S.A. is aware that industrial activity affects the environment and therefore company policy includes environmental management, whereby protection of the environment is assumed as one of the organisation's objectives, ensuring that the systems, equipment and railway material it produces are of the highest standards in terms of safety, efficiency and respect for the environment.

In November 2010, the audit was performed for maintenance of ISO 14001:2004 certification for the environmental management system at the Beasain, Irun and Zaragoza plants, the outcome of which was satisfactory. This system has been in operation since 2001.

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

It should be noted that, currently, in order to provide more efficient, environmentally-friendly and competitive means of transport, in an increasingly demanding environment where respect for the environment is concerned, CAF is implementing the "Sustainable Product Function", introducing eco-design methods into engineering processes in order to optimise and control the environmental impact of products from the design stage and throughout the life cycle.

CAF integrates methods and tools into its design processes that enable it to assess and select the best product solutions and configurations using:

- Recyclability analysis in accordance with the ISO 22628 standard to select the best materials.

- Analysis of the life cycle in accordance with the ISO 14.040 standard for the environmental evaluation of the product in each stage of its life cycle.

Also, in compliance with the Kyoto Protocol, greenhouse gas emissions remained at 2009 levels, consolidating the significant reduction achieved.

INVESTMENTS

The investments in factories in 2010 amounted to EUR 46,592 thousand and focused mainly on modernising the production facilities and enhancing safety in the workplace and the environment.

The capital expenditure at the plants in 2010 amounted to EUR 46,592 thousand (excluding the exchange rate translation effect). For yet another year, investments focused mainly on modernising the production facilities and enhancing safety in the workplace and the environment.

The most significant investments made in 2010 were as follows:

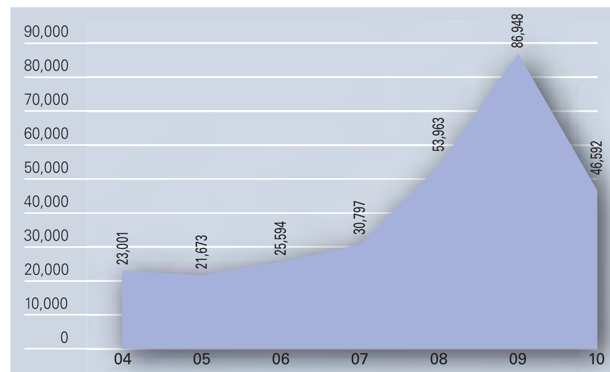
- **In the Rolling Stock Business Unit** the plan implemented for the modernisation and automation of the forging facilities, including the installation and entry into operation of a new 5,000-tonne forging press, the automatic wheel verification line and the installation of wheel and axis testing benches.

- Notable **in the Vehicles Unit**, in the Bogies Area, were the acquisition of new soldering robots to cope with increased production and the purchase of new folding machines for the manufacture of structures. In the Finishing and Assembly Area, the improvement of equipment and facilities was aimed primarily at the modernisation and improved safety of the assembly lines and, similarly, in the Testing Area, the facilities were adapted to requirements for the development of new projects.

- For yet another year, mention must be made of the investment **in the Technological Area**, to provide the necessary technical resources and tools to handle both new contracts and the various research projects CAF is working on.

Lastly, also worthy of mention is the work performed for the entry into operation of the new manufacturing plant in Hortolandia (São Paulo, Brazil), inaugurated in March 2010, the investment made in the CETEST analysis and testing industrial building and facilities and the investments made to extend and improve CAF's Santana and Trenasa facilities.

Investments
(thousand of euros)



TECHNOLOGICAL DEVELOPMENT

In 2010 CAF and CAF I+D finished the following projects, inter alia:
• AVI 2015 (High-Speed Interoperability)
• CIVITY platform units.
There was an increase in the number of R&D projects carried on in conjunction with other companies, in which CAF and its technological subsidiaries participate.

With respect to CAF and CAF I+D, in 2010 work was carried out on the following projects:

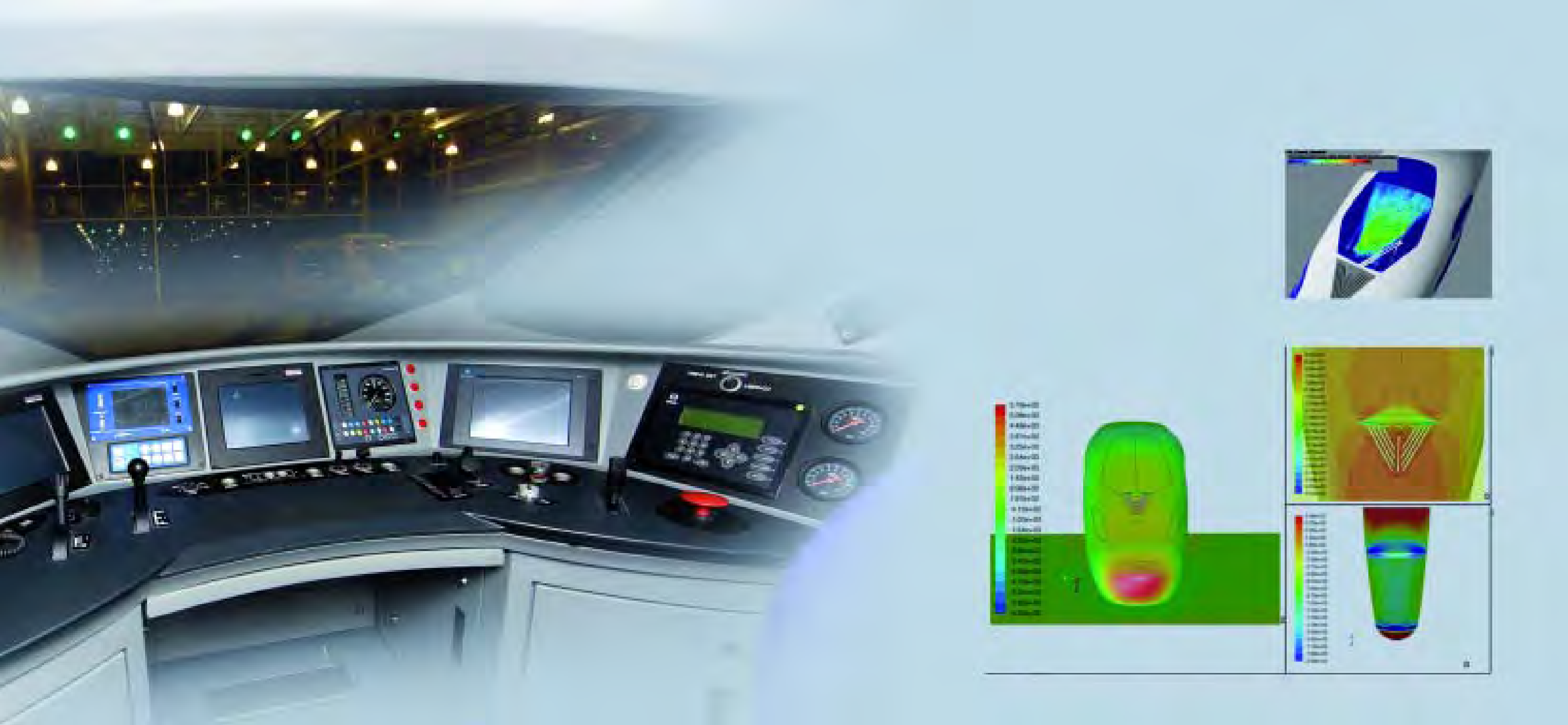
- The AVI 2015 project (High-Speed Interoperability project, subsidised by the CDTI as part of the CENIT programme).
- CIVITY platform units (formerly Eurocivis).

There was an increase in the number of joint R&D projects in which CAF and its technological subsidiaries participate. These projects, led or coordinated by CAF I+D, encompassed, inter alia, the following fields:

- High speed.
- Power electronics.
- Eco-design and energy efficiency.
- Electronic design, communications, information systems and control.
- Signalling.

All of the above combine the execution of projects aimed at assimilating technologies with the development of products based on those technologies. Noteworthy projects included:

- ECOTRANS, a CENIT project for the development of technologies for sustainable urban transport, led by CAF, and also involving three technological subsidiaries of CAF, 13 non-Group companies and 20 technology centres and universities in addition to CAF and CAF I+D.
- Specialised development projects in railway dynamics and noise and vibrations, supported by local and regional governments.
- SETI, an ETORGAI project led by CAF, aimed at the development of safety components for the transport sector.
- OARIS high-speed train prototype.
- ERTMS-ETCS system for the development of on-board signalling equipment.
- Etc.



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

- Elecrail and Unichanger projects led by the Spanish Railway Foundation involving the major players in the industry.
- European Dynotrain and Aerotrain projects involving CAF and CAF I+D with the aim of reducing the complexity of the current certification processes.

The subsidiaries carried on their normal technological development activity, including the following:

- The entry into commercial service of the independently functioning energy accumulation system, without the use of overhead lines, on the Seville tramway.
- The conclusion of the accreditation and certification process for the CIVIA unit with Trainelec traction.
- For Euskotren, the installation in CAF trains of projects covered by the Traintic Technology Plan for the design and manufacture of video information and video surveillance equipment.
- INFOZONE project for the elimination of neutral zones in high-speed overhead power lines led by Trainelec with the participation of ADIF and other infrastructure companies.

The most significant engineering projects on which the Group worked in 2010 were as follows:

- Electrical unit for Izmir (Turkey).
- Locomotives and carriages for Saudi Arabia.
- Caracas underground.
- Madrid underground: various series.
- Prototype of 320km/h high-speed train.
- Electric units for Euskotren.
- Mallorca underground.
- Malaga underground.
- Diesel trains for FFCC Northern Ireland (NIR).
- Istanbul underground.
- Train-tram - Bay of Cadiz - Chiclana.
- Zaragoza tram.
- Belgrade tram.
- FGC s/113 electric units.
- Diesel trains for Sardinia.

The following projects were also initiated:

- Medellín underground.
- Granada tram.
- CIVITY train for Trieste (Italy).
- Electric units for Line 8 CPTM (Brazil).
- Trailer cars for Amtrak (US).
- Besançon tram (France).
- Nantes tram (France).

RISK MANAGEMENT POLICY

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

1. Financial risks

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

The Group's Financial Department identifies, assesses and hedges financial risks by establishing 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, the investment of cash surpluses and deviations from budgets.

a) Market risk

The various CAF Group companies operate internationally and, therefore, are exposed to foreign currency risk in their foreign currency transactions (particularly the US dollar, Mexican peso, Brazilian real, pound sterling and Swedish krona). Currency risk may arise on future commercial transactions, balance sheet 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.

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

b) Credit risk

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

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

c) Liquidity risk

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to cover all the Group's obligations on a timely basis.

The CAF Group manages liquidity risk by:

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

d) Cash flow interest rate and fair value risk

The Group's interest rate risk arises on borrowings.

The CAF Group's policy with respect to current transactions is to resort in exceptional circumstances only to third-party borrowings in the form of short-term debt tied to variable market indices, normally Euribor. Accordingly, the interest rate risk is substantially mitigated. In the case of project financing debt, the Group arranges fixed rates of interest.

e) Risks arising from deviations from project budgets

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

2. Risks arising from environmental damage

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

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

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

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

4. Occupational risks or damage to plant assets

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

COMPANY DISCLOSURES

DISCLOSURES REQUIRED BY ARTICLE 116 BIS OF THE SPANISH SECURITIES MARKET LAW

a) Structure of the capital, including securities not traded on a regulated EU market, indicating, where appropriate, the various classes of shares and, for each class of shares, the rights and obligations they carry and the percentage of share capital they represent.

Pursuant to Article 5 of the company bylaws, the Company's share capital consists of 3,428,075 fully subscribed and paid shares of EUR 3.01 par value each, all of the same series and all carrying the same rights and obligations. At least 100 shares must be held in order to be able to attend and vote at General Meetings. No shares have been issued that could be converted into or exchanged for CAF shares.

All the shares are of the same class and no treasury shares are held.

b) Restrictions on the transferability of shares.

There are no bylaw-stipulated restrictions on the transferability of the shares.

As CAF is a listed company, the acquisition of certain significant ownership interests must be notified to the issuer and to the Spanish National Securities Market Commission (CNMV), pursuant to Article 53 of Spanish Securities Market Law 24/1988, Royal Decree 1362/2007, of 19 October, and CNMV Circular 2/2007, of 19 December, which establish 3% of the share capital or voting rights as the first notification threshold.

c) Significant direct or indirect ownership interests in the share capital at 31 December 2010.

Name or company name of owner of the interestr	Direct %	Indirect %	Total %
CARTERA SOCIAL, S.A.	29,56	0,000	29,56
CAJA DE AHORROS Y MONTE DE PIEDAD DE GUIPUZKOA Y SAN SEBASTIÁN	0,000	20,062	20,062
BNP PARIBAS SEGURITIES SERVICES LUX A/C CEDA	5,473	0,000	5,473
COMPAÑÍA ANDALUZA DE RENTAS E INVERSIONES, S.A.	3,010	0,000	3,010

d) Restrictions on voting power.

There are no legal or bylaw restrictions on exercising voting rights, other than those applicable to any company; however, as indicated above, in order to be able to attend General Meetings the bylaws state that at least 100 shares must be held, although in this case shareholders owning fewer shares may group together and be represented by another shareholder in order to jointly own 100 or more shares.

In order to be able to attend General Meetings, shareholders must have registered the shares in their name in the corresponding book-entry register at least five days before the date on which the General Meeting is to be held.

e) Side agreements.

CAF is not aware of the existence of any side agreements of the nature defined in Article 112 of Spanish Securities Market Law 24/1988, of 28 July, affecting the regulation of the exercise of voting rights at Annual General Meetings or which restrict or condition the free transferability of its shares.

f) Rules applicable to the appointment or replacement of the members of the managing body and to the amendment of the Company's bylaws.

1. Appointment and replacement

The directors shall be designated by the shareholders at the Annual General Meeting or by the Board of Directors, pursuant to the Spanish Public Limited Liability Companies Law and CAF's bylaws.

Proposals to appoint or re-appoint directors submitted by the Board of Directors to the shareholders at the Annual General Meeting and the appointment resolutions adopted by the Board by virtue of its co-optation powers must be preceded by the related proposal from the Nomination and Remuneration Committee in the case of independent directors and by a prior report in the case of the other directors.

When the Board does not heed the Nomination and Remuneration Committee's proposal, it must give the reasons for which it has taken that course of action and place such reasons on record in the minutes.

The Board shall endeavour to ensure that selected candidates are persons of known solvency, competence and experience, and shall take particular care when selecting persons to hold office as independent directors.

The Board may not propose or designate as independent directors persons who are or have been involved in the management of the Company or of the companies in its Group or persons owning a significant shareholding or those related, through family ties of up to the third degree of consanguinity or second degree of affinity or for professional or commercial reasons, to the executive directors or to other senior executives of CAF, CAF Group companies or owners of significant shareholdings.

The Board of Directors, in the exercise of its functions of submitting proposals to the Annual General Meeting and cooptation to fill vacancies, shall attempt to ensure that in the composition of the Board the external, non-executive directors represent a majority with respect to the executive directors, that the independent directors represent at least one-third of the total number of directors and that the proportion of proprietary and independent directors reflects the proportion of the Company's share capital represented by the proprietary directors. However, this last rule may be applied with greater flexibility, allowing a greater proportion of proprietary directors, when a large number of shareholders are represented on the Board and there are no ties among them.

The Board of Directors shall be made up of a minimum of seven and a maximum of fifteen members, who need not be

COMPANY DISCLOSURES

shareholders. The statutory prohibitions and incompatibilities shall apply.

The directors shall hold office for five years. They may be re-appointed one or more times for equal terms. The appointment of directors shall take effect from the date of their acceptance. The composition of the Board of Directors shall be renewed when the mandate of each director expires.

If during the period for which the directors were appointed vacancies arise, the Board of Directors may fill the vacancies from among the shareholders until the next General Meeting is held. Should the vacancy relate to a director holding the position of Chairman or CEO, the Board of Directors may fill the vacancy and appoint a Chairman temporarily. It may also appoint a CEO with the favourable vote of two-thirds of the Board members. Such appointments shall be fully effective until the next Annual General Meeting is held.

The directors shall vacate office in the terms provided for in the legislation applicable at any given time. Directors shall leave office when the period for which they were appointed has elapsed, unless they are re-appointed, and when they are removed by the shareholders, pursuant to the powers conferred on them, at the Annual General Meeting.

Also, the Regulations governing the Board of Directors state that directors must tender their resignation to the Board of Directors and resign if the latter deems it appropriate, in the following cases:

a) In the case of proprietary directors, when they, or the shareholders represented by them, transfer their ownership interest in the Company.

b) When they become subject to any incompatibility or prohibition provided for by law.

c) When they are prosecuted for a purported offence or are subject to disciplinary proceedings due to a serious or very serious misdemeanour for which an enquiry has been opened by the supervisory authorities.

d) When they are seriously reprimanded by the Board of Directors on the basis of a report of the Audit Committee as a result of having failed to fulfil their obligations as directors.

e) When there is a conflict of interests with the Company or when they fail to fulfil their duties of reporting and abstention.

f) When they breach their obligation of non-competition.

The directors must inform the Board of any criminal proceedings in which they are an accused party and of the subsequent progress of the proceedings. In any case, directors must inform the Board and, where appropriate, resign in cases in which the repute and reputation of the Company might be harmed.

2. Amendment of the bylaws

The powers of the Annual General Meeting provided for in Article 13 of the bylaws and Article 4 of the Regulations governing the Annual General Meetings of CAF expressly include the amendment of the bylaws and higher majorities than those established by law are not required.

g) Powers of the members of the Board of Directors and, in particular, powers relating to the possibility of issuing or repurchasing shares.

All the Board's powers, except for those that may not be delegated by law, have been delegated to the Board Chairman, José María Baztarrica Garijo.

All the Board's powers, except for those that may not be delegated by law, have also been delegated to the CEO, Andrés Arizkorreta García.

The Executive Director Alejandro Legarda Zaragüeta, General Manager of CAF, has wide-reaching powers of attorney in relation to representation, hiring, banking matters, management and the disposal of assets.

The shareholders at the Annual General Meeting held on 5 June 2010 authorised the Board of Directors to derivatively acquire shares of CAF. This acquisition may be made directly by CAF or indirectly through its subsidiaries, through purchase and sale transactions or share exchanges or by any other legally permitted means and for the market price of the shares. The maximum number of shares to be acquired may not exceed, together with such shares as might already be held by the acquiring Company and its subsidiaries, the legal limit provided for. The authorisation has a duration of five years from the date of the Annual General Meeting.

h) Significant agreements entered into by the Company and which come into force or are modified or terminated in the event of a change in control over the Company resulting from a takeover bid, and their effects, except when disclosure would be seriously detrimental to the Company. This exception is not applicable where the Company is legally obliged to disclose this information.

No significant agreements have been entered into by the Company that will come into force, be modified or terminate in the event of a change in control over the Company resulting from a takeover bid.

i) Agreements between the Company and its directors, executives or employees which provide for termination benefits upon resignation or dismissal without justification or upon termination of the employment relationship as a result of a takeover bid.

There are no agreements between the Company and its directors, executives or employees that provide for termination benefits when the latter resign or are dismissed without justification or if the employment relationship ends as a result of a takeover bid.

CORPORATE GOVERNANCE

2010 Annual Corporate Governance Report Model of Listed Companies

CAF's Annual Corporate Governance Report relative to fiscal year 2010 is published on CAF's website (www.caf.net), as well as on the National Securities Market Commission's website (www.cnmv.es), pursuant to Article 117 of the Securities Market Law (wording of Law 26/2003 on Listed Companies' Transparency), Order ECO/3722/2003 and Circulars 1/2004 and 4/2007 passed by the National Securities Market Commission.

Notwithstanding the possibility of inquiring such Report on either website, there are copies thereof available to shareholders upon request.

OUTLOOK

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

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

EVENTS AFTER THE BALANCE SHEET DATE

At 31 January 2011, the Group had a firm backlog of EUR 4,398,843 thousand.

Letter from the Auditor

Deloitte.

Pza. de Julio Caro Baroja, 2
20018 San Sebastián
España

Tel.: +34 943 26 78 00
Fax: +34 943 26 78 01
www.deloitte.es

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

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

We have audited the consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. ("CAF" or "the Parent") and Subsidiaries composing the CAF Group (see Note 2-f), which comprise the consolidated balance sheet at 31 December 2010 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended. As indicated in Note 2-a, the Parent's directors are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

In our opinion, the accompanying consolidated financial statements for 2010 present fairly, in all material respects, the consolidated equity and consolidated financial position of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries composing the CAF Group at 31 December 2010, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

The accompanying consolidated directors' report for 2010 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 2010. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of the consolidated companies.

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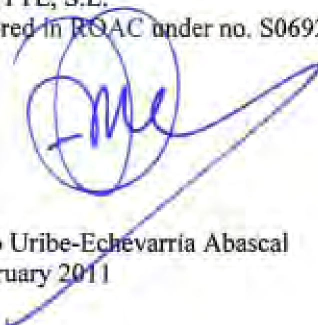
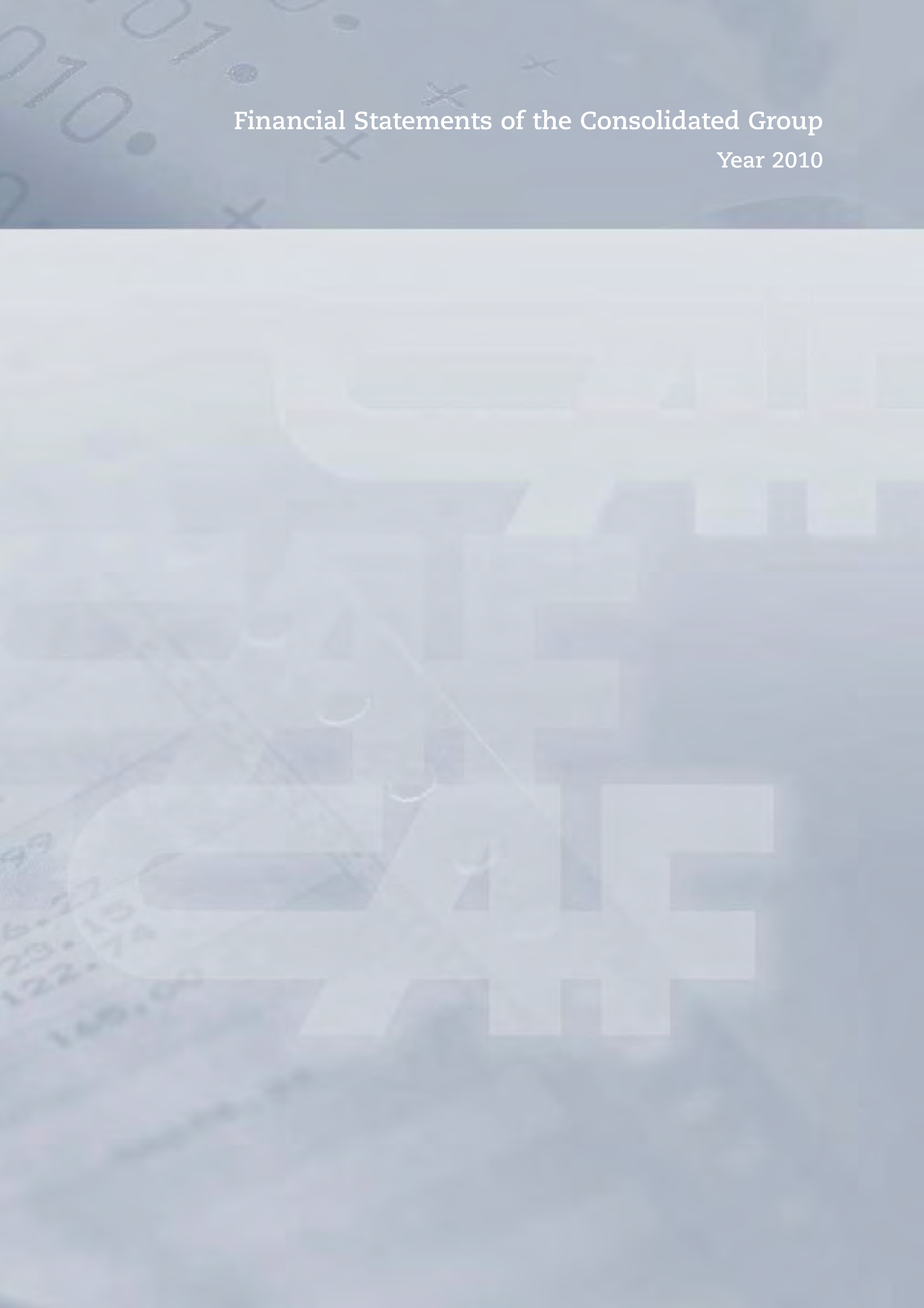


Alberto Uribe-Echevarría Abascal
28 February 2011

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

Member of
Deloitte Touche Tohmatsu


Financial Statements of the Consolidated Group
Year 2010

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

Consolidated balance sheets

at 31 December 2010 and 2009 (Notes 1, 2 and 3) (Thousands of Euros)

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

Assets	31-12-10	31-12-09 (*)
Non-current assets:		
Intangible assets (Note 7)		
Goodwill	596	5,892
Other intangible assets	211,865	163,908
	212,461	**169,800**
Property, plant and equipment, net (Note 8)	**300,967**	**274,633**
Investments accounted for using the equity method (Note 9)	**16,979**	**12,191**
Non-current financial assets (Note 9)	**56,718**	**51,987**
Deferred tax assets (Note 18)	**113,005**	**88,847**
Total non-current assets	**700,130**	**597,458**
Current assets:		
Inventories (Note 11)	**354,906**	**336,624**
Trade and other receivables		
Trade receivables for sales and services (Notes 10, 11 and 12)	669,400	814,186
Other accounts receivable (Notes 7 and 19)	77,328	42,768
Current tax assets (Note 19)	4,324	4,368
	751,052	**861,322**
Other current financial assets (Notes 10 and 13)	**358,467**	**468,818**
Other current assets	**3,433**	**3,172**
Cash and cash equivalents	**55,705**	**81,727**
Total current assets	**1,523,563**	**1,751,663**
Total assets	**2,223,693**	**2,349,121**

Equity and Liabilities	31-12-10	31-12-09 (*)
Equity (Note 14):		
Shareholders' equity		
Registered share capital	10,319	10,319
Share premium	11,863	11,863
Revaluation reserve	58,452	58,452
Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method	351,221	268,294
Profit for the year attributable to the Parent	129,624	124,343
	561,479	**473,271**
Valuation Adjustments		
Translation differences	2,145	(13,702)
Hedges	-	(70)
	2,145	**(13,772)**
Equity Attributable to the Parent	**563,624**	**459,499**
Non-controlling interests	**9,660**	**12,946**
Total equity	**573,284**	**472,445**
Non-current liabilities:		
Long-term provisions (Note 20)	**2,146**	**2,661**
Non-current financial liabilities (Note 15)		
Bank borrowings	240,565	187,577
Other financial liabilities	66,624	62,763
	307,189	**250,340**
Deferred tax liabilities (Note 18)	**55,934**	**36,994**
Other non-current liabilities (Note 3-p)	**5,546**	**4,008**
Total non-current liabilities	**370,815**	**294,003**
Current liabilities:		
Short-term provisions (Note 20)	**211,104**	**217,867**
Current financial liabilities (Note 15)		
Bank borrowings	20,344	15,817
Other financial liabilities	21,946	21,137
	42,290	**36,954**
Trade and other payables		
Payable to suppliers	440,363	521,510
Other payables (Notes 10, 11, 15 and 19)	580,235	793,201
Current tax liabilities (Note 19)	4,013	12,823
	1,024,611	**1,327,534**
Other current liabilities	**1,589**	**318**
Total current liabilities	**1,279,594**	**1,582,673**
Total equity and liabilities	**2,223,693**	**2,349,121**

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 27 are an integral part of the consolidated balance sheet at 31 December 2010.

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

Consolidated Income Statements

for the years ended 31 December 2010 and 2009 (Notes 1, 2 and 3) (Thousands of Euros)

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

(Debit) Credit	2010	2009 (*)
Continuing operations:		
Revenue (Note 6)	1,576,307	1,258,041
+/- Changes in inventories of finished goods and work in progress	(20,650)	186,063
In-house work on non-current assets	1,783	827
Procurements (Note 21)	(814,680)	(760,148)
Other operating income (Note 21)	10,221	11,698
Staff costs (Note 22)	(318,160)	(280,119)
Other operating expenses (Note 21)	(226,659)	(255,072)
Depreciation and amortisation charge (Notes 7 and 8)	(38,647)	(26,874)
Impairment losses and gains or losses on disposal of non-current assets (Notes 7, 8 and 9)	(14,339)	2,407
Other gains or losses	-	(1,051)
Profit from operations	**155,176**	**135,772**
Finance income (Notes 7 and 13)	14,399	6,763
Finance costs (Note 16)	(32,449)	(26,670)
Exchange differences	(9,103)	3,947
Impairment and gains or losses on disposal of financial instruments	2,685	845
Change in fair value of financial instruments	(45)	-
Financial loss	**(24,513)**	**(15,115)**
Result of companies accounted for using the equity method (Note 9)	(846)	(524)
Profit before tax	**129,817**	**120,133**
Income tax (Note 18)	(4,377)	(427)
Profit for the year from continuing operations	**125,440**	**119,706**
Consolidated profit for the year	**125,440**	**119,706**
Attributable to:		
The Parent	129,624	124,343
Non-controlling interests	(4,184)	(4,637)
Earnings per share (in euros)		
Basic	37.81	36.27
Diluted	37.81	36.27

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the consolidated income statement at 31 December 2010.

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

Consolidated Statements of Recognised Income and Expense

for 2010 and 2009 (Notes 1 to 3) (Thousands of Euros)

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

	2010	2009 (*)
A) Consolidated profit for the year	**125,440**	**119,706**
B) Income and expense recognised directly in equity	**17,092**	**6,431**
Arising from revaluation of financial instruments	-	-
Arising from cash flow hedges	97	188
Translation differences	17,022	6,297
Tax effect	(27)	(54)
Total recognised income and expense (A+B)	**142,532**	**126,137**
Attributable to:		
The Parent	145,541	130,530
Non-controlling interests	(3,009)	(4,393)

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of changes in recognised income and expense at 31 December 2010.

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

Consolidated Statements of Changes in Equity

for 2010 and 2009 (Notes 1 to 3) (Thousands of Euros)

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

	Equity Attributable to the Parent								
	Equity								
	Share Capital	Share Premium	Unrealised Asset and Liability Revaluation Reserve	Other Reserves	Net Profit for the Year	Valuation Adjustments	Translation Differences	Non-Controlling Interests	Total Equity
Balances at 31 December 2008 (*)	**10,319**	**11,863**	**58,452**	**195,648**	**105,741**	**(204)**	**(19,697)**	**15,208**	**377,330**
Total recognised income and expense	**-**	**-**	**-**	**-**	**124,343**	**134**	**6,053**	**(4,393)**	**126,137**
Transactions with shareholders or owners	**-**	**-**	**-**	**-**	**(32,567)**	**-**	**-**	**1,173**	**(31,394)**
Dividends paid	-	-	-	-	(32,567)	-	-	(43)	(32,610)
Capital increases	-	-	-	-	-	-	-	1,216	1,216
Other changes in equity	**-**	**-**	**-**	**72,646**	**(73,174)**	**-**	**(58)**	**958**	**372**
Transfers between equity items	-	-	-	72,540	(73,174)	-	(58)	692	-
Other changes	-	-	-	106	-	-	-	-	106
Changes in the scope of consolidation	-	-	-	-	-	-	-	266	266
Balances at 31 December 2009 (*)	**10,319**	**11,863**	**58,452**	**268,294**	**124,343**	**(70)**	**(13,702)**	**12,946**	**472,445**
Total recognised income and expense	**-**	**-**	**-**	**-**	**129,624**	**70**	**15,847**	**(3,009)**	**142,532**
Transactions with shareholders or owners	**-**	**-**	**-**	**(5,421)**	**(35,995)**	**-**	**-**	**(277)**	**(41,693)**
Dividends paid	-	-	-	-	(35,995)	-	-	(64)	(36,059)
Capital increases	-	-	-	-	-	-	-	-	-
Transactions with non-controlling shareholders	-	-	-	(5,421)	-	-	-	(213)	(5,634)
Other changes in equity	**-**	**-**	**-**	**88,348**	**(88,348)**	**-**	**-**	**-**	**-**
Transfers between equity items	-	-	-	88,348	(88,348)	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-
Changes in the scope of consolidation	-	-	-	-	-	-	-	-	-
Balances at 31 December 2010	**10,319**	**11,863**	**58,452**	**351,221**	**129,624**	**-**	**2,145**	**9,660**	**573,284**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of changes in equity at 31 December 2010.

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

Consolidated Statements of Cash Flows

for 2010 and 2009 (Notes 1 to 3) (Thousands of Euros)

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

	2010	2009 (*)
Cash flows from operating activities:		
Profit for the year	129,817	120,133
Adjustments for		
Depreciation and amortisation charge (Notes 7 and 8)	38,647	28,389
Impairment losses (Notes 7 and 9)	11,731	(3,729)
Changes in provisions (Notes 3-l and 20)	(8,974)	20,306
Other income and expenses	4,267	1,239
Gain on disposal of non-current assets (Note 8)	(42)	244
Investments accounted for using the equity method (Note 9)	846	524
Finance income	(14,399)	(6,763)
Finance costs	32,449	26,670
Changes in working capital		
Trade receivables and other current assets (Notes 3-d and 12)	122,152	(178,337)
Inventories (Note 11)	(12,094)	(255,294)
Trade payables	(311,346)	299,214
Other current liabilities	1,269	-
Other current assets and liabilities	1,537	-
Other cash flows from operating activities		
Income tax recovered/(paid) (Note 19)	(18,258)	(10,850)
Other collections/(payments) relating to operating activities	(1,293)	(877)
Net cash flows from operating activities (I)	**(23,691)**	**40,869**
Cash flows from investing activities:		
Payments due to investment		
Group companies and associates (Notes 9 and 10)	(12,574)	(2,607)
Property, plant and equipment, intangible assets and investment property (Notes 7 and 8)	(64,907)	(87,072)
Other financial assets (Notes 9 and 13)	(40,115)	(2,620)
Business unit (changes in the scope of consolidation)	(6,843)	-
Proceeds from disposal		
Property, plant and equipment, intangible assets and investment property (Notes 7 and 8)	403	3,368
Other financial assets (Notes 9 and 13)	151,936	38,798
Interest received	9,180	6,763
Net cash flows from investing activities (II)	**37,080**	**(43,370)**
Cash flows from financing activities:		
Purchase of shares of non-controlling interests (Note 2-f)	(5,630)	-
Proceeds and (payments) relating to financial liability instruments		
Proceeds from issue (Notes 15 and 16)	38,784	36,682
Repayment and redemption (Notes 15 and 16)	(28,869)	(29,387)
Dividends and returns on other equity instruments paid	(36,059)	(32,567)
Other cash flows from financing activities		
Interest paid (Note 16)	(12,842)	(8,387)
Other proceeds (payments) relating to financing activities	-	1,173
Net cash flows from financing activities (III)	**(44,616)**	**(32,486)**
Net increase in cash and cash equivalents (I+II+III)	**(31,227)**	**(34,987)**
Cash and cash equivalents at beginning of year	81,727	116,714
Effect of foreign exchange rate changes on cash	5,205	-
Cash and cash equivalents at end of year	**55,705**	**81,727**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of cash flows at 31 December 2010.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2010

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

1. DESCRIPTION AND ACTIVITIES OF THE PARENT

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

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

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

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

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) Basis of presentation

The consolidated financial statements for 2010 of the CAF Group were formally prepared by the directors:

- In accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, including International Accounting Standards (IASs) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC). The principal accounting policies and measurement bases applied in preparing the Group's accompanying consolidated financial statements are summarised in Note 3.
- Taking into account all the mandatory accounting policies and rules and measurement bases with a material effect on the consolidated financial statements, as well as the alternative treatments permitted by the relevant standards in this connection, which are specified in Note 3.
- So that they present fairly the CAF Group's consolidated equity and financial position at 31 December 2010 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.
- On the basis of the accounting records kept by the Parent and by the other Group companies. However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements (IFRSs) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards.

The CAF Group's consolidated financial statements for 2009 were approved by the shareholders at the Annual General Meeting of CAF on 5 June 2010. The 2010 consolidated financial statements of the Group and the 2010 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 2010 were prepared in accordance with International Financial Reporting Standards, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of 19 July 2002, taking into account all the mandatory accounting principles and rules and measurement bases with a material effect, as well as the alternative treatments permitted by the relevant standards in this connection.

The entry into force of the revision of IFRS 3, Business Combinations, the amendments to IAS 27, Consolidated and Separate Financial Statements, the amendment to IAS 39, Financial Instruments: Recognition and Measurement -

Eligible Hedged Items and amendments to IFRS 2, Group Cash-settled Share-based Payment Transactions became effective for the first time in 2010 and were applied in the Group's consolidated financial statements but did not have any material impacts on the amounts reported or the presentation and disclosure of the consolidated financial statements.

Also, the following interpretations came into force on 1 January 2010: IFRIC 12, Service Concession Arrangements, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 16, Hedges of a Net Investment in a Foreign Operation, IFRIC 17, Distributions of Non-cash Assets to Owners and IFRIC 18, Transfers of Assets from Customers. The adoption of these new interpretations in 2010 did not have any impact on the Group's consolidated financial statements for the year ended 31 December 2010.

Standards and interpretations issued but not yet in force

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

Standards and amendments to standards		**Obligatory Application in Annual Reporting Periods Beginning On or After:**
Amendment to IAS 32	Classification of Rights Issues	1 February 2010
Revision of IAS 24	Related Party Disclosures	1 January 2011
IFRS 9 **(1)**	Financial Instruments: Classification and Measurement	1 January 2013
2010 improvements to IFRSs (May 2010) **(1)**	Non-urgent amendments to IFRSs	Various (mainly 1 January 2011)
Amendment of IFRS 7 **(1)**	Financial Instruments: Disclosures - Transfers of Financial Assets	1 July 2011
Interpretations		
Amendment of IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

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

Amendment to IAS 32, Classification of Rights Issues

This amendment relates to the classification of foreign currency denominated rights issues (rights, options or warrants). Pursuant to this amendment, when these rights are to acquire a fixed number of shares in exchange for a fixed amount, they are equity instruments, irrespective of the currency in which that fixed amount is denominated and provided that other requirements of the standard are fulfilled.

Since the Group has not issued any instruments of this nature, this amendment will not have any impact.

Revision of IAS 24, Related Party Disclosures

The revision of IAS 24 simplifies the definition of "related party", eliminating certain contradictions and reducing the disclosure requirements for government-related entities.

The revised definition is slightly broader than the definition included in the previous version of IAS 24, e.g. it explicitly includes the following as reciprocal related parties:

– Two joint ventures of the same third party.

– A joint venture and an associate of the same third party (but not two associates).

The definition of close family relationships has been redrafted to make it clear that it includes the person's spouse or domestic partner and children (including adult children) and dependants of that person or that person's spouse or domestic partner.

The current standard includes an explicit reference to its application to commitments between an entity and its related parties as well as to outstanding transactions and balances.

The revised standard must be applied retrospectively and, therefore, it may be necessary to restate the information on comparative periods.

IFRS 9, Financial Instruments: Classification and Measurement

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

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

Amendment of IFRS 7, Financial Instruments: Disclosures - Transfers of Financial Assets

It reinforces the disclosure requirements applicable to the transfers of financial assets that are not derecognised or that qualify mainly for derecognition but in which the entity still has continuing involvement. In the case of the latter, in which the number of new disclosures has increased the most, by way of example, the entity shall disclose information on the maximum exposure to loss that may arise from its continuing involvement, the cash outflows required to repurchase assets with a maturity analysis, the income and expenses recognised in the reporting period and cumulatively, from the entity's continuing involvement and enhanced qualitative information about the transaction that gave rise to the derecognition of the financial asset (description, nature of the continuing involvement, risks to which an entity is exposed, etc.).

Earlier application is permitted by the standard but it must be noted that it is not yet possible since the standard has not been approved for use in Europe.

Amendment of IFRIC 14, Prepayments of a Minimum Funding Requirement

One unforeseen circumstance of IFRIC 14 was that entities could not recognise a prepayment of minimum funding requirement contributions to pension plans as an asset. The amendment of the interpretation addresses this issue and is only applicable in specific cases in which the entity is required to pay minimum funding requirement contributions and makes a prepayment in this connection. In these cases, the gain resulting from the prepayment can be accounted for as an asset.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments

This interpretation addresses the accounting by a debtor when all or part of a financial liability is extinguished through the issue of equity instruments to the creditor. The interpretation does not apply to transactions in situations where the counterparties in question are shareholders or related parties, acting in their capacity as such, or where extinguishing

the financial liability by issuing equity shares is in accordance with the original terms of the financial liability. In this case, the equity instruments issued are measured at fair value at the date the liability is extinguished and any difference between this value and the carrying amount of the liability is recognised in profit or loss. The directors consider that the entry into force of this interpretation will not have a significant effect on the consolidated financial statements.

c) Functional currency

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

The detail of the equivalent euro value of the assets and liabilities of the subsidiaries with functional currencies other than the euro at 31 December 2010 and 2009 is as follows:

	Equivalent Value in Thousands of Euros			
	31/12/10		31/12/09	
Currency	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Chilean peso	4,336	3,258	7,354	6,735
Mexican peso	417,988	359,439	339,873	267,605
Argentine peso	2,786	834	2,529	858
Brazilian real	216,995	104,165	140,493	90,374
US dollar (Note 3-d)	10,897	5,854	10,149	4,642
Pound sterling	1,900	1,213	2,209	1,775
Algerian dinar	1,611	1,446	1,105	954
New Turkish lira	8,449	6,029	4,331	4,032
Bolivar	236	226	-	-
Indian rupee	1,799	1,577	-	-
Total	**666,997**	**484,041**	**508,043**	**376,975**

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

	Equivalent Value in Thousands of Euros			
	31/12/10		31/12/09	
Nature of the Balances	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Intangible assets	261,174	-	243,626	-
Property, plant and equipment	70,492	-	57,349	-
Non-current financial assets and deferred tax assets	41,058	-	16,819	-
Inventories	74,769	-	36,746	-
Trade and other receivables	184,994	-	95,885	-
Other current financial assets	6,345	-	6,029	-
Cash and cash equivalents	28,165	-	51,589	-
Non-current liabilities	-	240,808	-	186,379
Current liabilities	-	243,233	-	190,596
Other	-	-	-	-
Total	**666,997**	**484,041**	**508,043**	**376,975**

d) Use of estimates

In the consolidated financial statements of the CAF Group for 2010 estimates were occasionally made.

Although these estimates were made on the basis of the best information available at 31 December 2010 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 statement.

There have not been any changes in accounting estimates with respect to 2009 that might have had a material impact on these consolidated financial statements.

e) Comparative information

As required by IAS 1, the information relating to 2010 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with information relating to 2009.

The 2009 consolidated financial statements, which are included for comparison purposes, were also prepared in accordance with IFRSs as adopted by the European Union on a basis consistent with that applied in 2010.

f) Consolidated Group and basis of consolidation

Scope of consolidation

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

The accompanying consolidated financial statements for the year ended 31 December 2010 were prepared from the individual accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. (Parent - see Note 1) at that date and of the subsidiaries and associates listed below:

	% of Control or Influence	Location	Line of Business	Auditor
Fully consolidated companies				
Industrial Subgroup				
CAF, S.A.	Parent	Guipúzcoa	Marketing and manufacture of railway equipment and components	Deloitte
CAF USA, Inc.	100%	Delaware	Manufacturing	G. Thornton
CAF México, S.A. de C.V.	100%	Mexico City	Marketing and manufacture of railway equipment and components	Deloitte
CAF Brasil Industria e Comercio, S.A.	100%	Sao Paulo	Repairs and maintenance	Deloitte
CAF Argentina, S.A.	100%	Buenos Aires	Repairs and maintenance	EY
CAF Rail UK, Ltda.	100%	Belfast	Repairs and maintenance	Deloitte
CAF Italia, S.R.L.	100%	Rome	Repairs and maintenance	Deloitte
CAF Chile, S.A.	100%	Santiago de Chile	Repairs and maintenance	Deloitte
CAF Francia, S.A.S.	100%	Paris	Manufacturing and maintenance	Deloitte
CAF Turquía, L.S.	100%	Istanbul	Manufacturing and maintenance	Deloitte
CAF Argelia, E.U.R.L.	100%	Algiers	Manufacturing and maintenance	Deloitte
Trenes CAF Venezuela, C.A.	99%	Caracas	Manufacturing and maintenance	Deloitte

	% of Control or Influence	Location	Line of Business	Auditor
Houston LRV 100, LLC	100%	Delaware	Manufacturing	-
CAF Australia Pty, Ltd	100%	Australia	Manufacturing and maintenance	-
CAF India Private Limited	100%	Delhi	Manufacturing and maintenance	Deloitte
CFD Bagneres, S.A.	100%	Paris	Manufacturing and maintenance	Deloitte
Trenes de Navarra, S.A.	100%	Navarre	Manufacturing	Deloitte
Construcciones Ferroviarias de Madrid, S.L.U.	100%	Madrid	Manufacturing	G. Thornton
Construcciones Ferroviarias CAF-Santana, S.A.	67%	Jaén	Manufacturing	Deloitte
Tradinsa Industrial, S.A.	96%	Lleida	Repairs and maintenance	Deloitte
Technology Subgroup				
CAF I+D, S.L. (Sole-Shareholder Company)	100%	Guipúzcoa	R&D	-
Traintic, S.L.	99.99%	Guipúzcoa	Electronic equipment	Bsk
Trainelec, S.L.	100%	Guipúzcoa	Electronic power equipment	Deloitte
Nuevas Estrategias de Mantenimiento, S.L.	85%	Guipúzcoa	Technology solutions	Bsk
Desarrollo de Software Miramon 4, S.L.	60%	Guipúzcoa	Software	Bsk
Bizkaia Ferroviaria, S.L.	100%	Vizcaya	Engineering	Bsk
Centro de Ensayos y Análisis Cetest, S.L.	100%	Guipúzcoa	Tests	Bsk
Lets Ingenieros, S.L.	52.11%	Madrid	Electronic equipment	Bsk
Lander Simul. and Training Solutions, S.A.	57%	Guipúzcoa	Simulators	S.M. Audit
Geminys, S.L.	100%	Guipúzcoa	Operational manuals	Alter
Seinalia, S.L.	100%	Guipúzcoa	Signalling systems	Deloitte
Eliop Seinalia, S.L.U.	100%	Madrid	Signalling systems	Deloitte
Services Subgroup				
Actren, S.A. (*)	51%	Madrid	Maintenance	Deloitte
Sermanfer, S.A.U.	100%	Madrid	Maintenance	Audyge
Sefemex, S.A. de C.V.	100%	Mexico City	Rendering of services	Almaguer
Corporación Trainemex, S.A. de C.V.	100%	Mexico City	Administrative services	Almaguer
Inversiones en Concesiones Ferroviarias, S.A.	100%	Guipúzcoa	Business development	Deloitte
Urbanización Parque Romareda, S.A.	100%	Zaragoza	Ownership of shares	-
Ferrocarriles Suburbanos, S.A. de C.V.	85%	Mexico City	Transport services	Deloitte
Ctrens Companhia de Manutençao, S.A.	100%	Sao Paulo	Lease services	Deloitte
Provetren, S.A. de C.V.	100%	Mexico City	Lease services	Deloitte
Sermantren, S.A. de C.V.	100%	Mexico City	Rendering of services	Almaguer
Ibaia Energia, S.L.	100%	Guipúzcoa	Power generation	Bsk
Sempere Componentes, S.L.	100%	Guipúzcoa	Marketing	Bsk
Predictove Ingenieros, S.L.	100%	Guipúzcoa	Predictive maintenance	Alter
Agarregune, S.L.	100%	Guipúzcoa	Business development	-
Garraiotech, S.L.	80%	Guipúzcoa	Logistics services	Bsk

	% of Control or Influence	Location	Line of Business	Auditor
Construction Subgroup				
Constructora de Sistemas Ferroviarios, S.L.	100%	Guipúzcoa	Equipment	Deloitte
Constructora Mex. Del Fer. Sub., S.A. de C.V.	100%	Mexico City	Equipment	Deloitte
Companies accounted for using the equity method (Note 9)				
Industrial Subgroup				
Compañia de Vagones del Sur, S.A. (**)	23.45%	Jaén	Manufacturing	-
Technology Subgroup				
Asirys Vision Technologies, S.A.	22.33%	Guipúzcoa	Automatic production	S.M. Audit
Services Subgroup				
Plan Metro, S.L.	40%	Madrid	Lease services	Deloitte
Consorcio Traza, S.A. (***)	25%	Zaragoza	Ownership of shares	-

(*) Proportionately consolidated company.
(**) The Company owns all the shares of Ditecsa Jaén, S.L.
(***) The Company holds an 80% ownership interest in S.E.M. Los Tranvías de Zaragoza, S.A.

Changes in the scope of consolidation

In 2010, the entire ownership interest in Jeudi Inversiones 2010, S.L. was acquired. The company served as a vehicle for the acquisition of assets and liabilities relating to the infrastructure division of Núcleo Comunicaciones y Control, S.A. This acquisition is defined as a purchase of a business and was accounted for by the purchase method of accounting as follows:

	Thousands of Euros		
	Carrying Amount at the Date of Acquisition	**Fair Value Adjustments (Note 7)**	**Fair Value**
Non-current assets	3,450	5,971	9,421
Current assets	10,532	-	10,532
Non-current liabilities	(2,327)	-	(2,327)
Current liabilities	(8,126)	-	(8,126)
Total			**9,500**
Purchase price			**9,500**

Of the total purchase price agreed upon (EUR 9.5 million), EUR 3 million remained outstanding at 31 December 2010 subject to compliance with certain conditions (EUR 1.5 million) and to the lapse of 18 months and 3 years from the date of purchase (EUR 1.5 million). Following the transaction, Jeudi Inversiones 2010, S.L. increased capital by EUR 3 million which was fully subscribed by Grupo Inversiones en Concesiones Ferroviarias, S.A. Subsequent to this transaction, the company name was changed to the current name of Eliop Seinalia, S.L.U. In November 2010, the remaining 40% of the Group company CFD Bagneres, S.A. was acquired from the non-controlling shareholder for EUR 5,360 thousand. The ownership interest of 1.63% held by the non-controlling shareholder of Trenes de Navarra, S.A. was also acquired for EUR 270 thousand. In addition, CAF India Private Limited was incorporated with a share

capital of EUR 116 thousand, Ctrens Companhia de Manutençao, S.A. with share capital of EUR 115 million, EUR 37 million of which had been paid at 31 December 2010, Provetren, S.A. de C.V. and Sermantren, S.A. de C.V. with share capital of EUR 3 thousand each and CAF Rail Australia Pty, Ltd. Lastly, in 2010 a capital increase of EUR 11,385 thousand was carried out at Consorcio Traza, S.A.

In 2009 the Company sold its entire 33% ownership interest in Transitia, Sociedad de Promoción de Empresas, S.L. for EUR 834 thousand, incurring a loss of EUR 22 thousand. It also acquired 80% of Garraiotech, S.L. for EUR 1,530 thousand, the net assets of which amounted to EUR 1,356 thousand at the purchase date. In addition, Trenes CAF Venezuela, C.A. was incorporated with share capital of EUR 18 thousand and Houston LRV100 LLC with share capital of EUR 7 thousand. Also, in 2009 a capital contribution of EUR 2,056 thousand was made to incorporate Consorcio Traza, S.A. In 2009 the aforementioned company also formed the public-private entity ("SEM") Los Tranvías de Zaragoza, S.A. with share capital of EUR 10,000 thousand in which it holds an 80% ownership interest.

Consolidation method

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

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

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

Translation of foreign currency financial statements

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

The difference between the amount of the foreign companies' equity translated at historical exchange rates (except for the profit or loss for the year, which is translated as stated above) and the 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 non-controlling interests, which is recognised under "Equity - Non-Controlling Interests".

g) Correction of errors

In preparing the accompanying consolidated financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2009.

3. ACCOUNTING PRINCIPLES AND POLICIES AND MEASUREMENT BASES APPLIED

The principal accounting policies used by the CAF Group in preparing its consolidated financial statements at 31 December 2010 and 2009 were as follows:

a) Intangible assets

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

The amounts recognised by the CAF Group as administrative concessions relate, pursuant to IFRIC 12, to the cost incurred in the acquisition or production of the assets required for the operation thereof, and the borrowing costs incurred during the construction period of the infrastructure are capitalised. The administrative concessions are recognised as intangible assets since the related investments will be recovered through the cash flows from passengers and other activities involved in the operation of the concessions and there is no unconditional contractual right to receive cash from the grantor. Therefore, the margin on the internally generated assets will be credited to consolidated income as a reduction in the amortisation charge as the concessions are operated. These amounts will be amortised on a straight-line basis over the concession term (30 years) from the date of commencement of the related services (which occurred in the first half of 2008) (see Note 7).

Goodwill is recognised as an asset when it arises in an acquisition for valuable consideration in the context of a business combination. Goodwill is allocated to each of the cash-generating units to which the economic benefits of the business combination are expected to flow and is not amortised. The aforementioned cash-generating units must be tested for impairment at least once a year in accordance with the methodology indicated below, recognising, if applicable, the required valuation adjustment.

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

b) Property, plant and equipment

Items of property, plant and equipment are carried at cost revalued, where appropriate, pursuant to the applicable legislation, including Guipúzcoa Regulation 11/1996, of 5 December, and Guipúzcoa 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 the deemed cost for certain specific assets.

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

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

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

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

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

c) Impairment of assets

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

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

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

d) Financial instruments

Trade and other receivables

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

The required adjustments are recognised for the difference between the recoverable amount of accounts receivable and their carrying amount determined as indicated in the preceding paragraph. At 31 December 2010 and 2009, except as indicated in Note 7 relating to the account receivable from the concession in Mexico, there were no material non-current receivables without explicit interest.

The Group recognises an allowance for debts in an irregular situation due to late payment, administration, insolvency or other reasons, after performing a case-by-case collectability analysis. In 2010 and 2009 the net changes in impairment losses on accounts receivable, in addition to that indicated in Note 9, were a charge of approximately EUR 533 thousand and a net amount used of approximately EUR 431 thousand, respectively (see Note 12).

Financial assets

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

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

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

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

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

At 31 December 2010 and 2009, the Group did not have any assets in this category.

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

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

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

Cash and cash equivalents

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

Trade and other payables

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

Bank borrowings and other financial liabilities

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

Derivative financial instruments

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

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

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

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

- In fair value hedges, the gains or losses arising on both the hedging instrument and the hedged item attributable to the type of risk being hedged are recognised directly under "Financial Profit (Loss)" in the accompanying consolidated income statement. The Group recognises as fair value hedges the hedges arranged for construction work commenced in or after 2006, since the necessary conditions are met for hedges of this nature.
- In cash flow hedges, the gains or losses attributable to the effective portion of the hedging instrument are recognised temporarily in equity under "Valuation Adjustments". This method is used by the Group to hedge work commenced in 2005 and in prior years and for work in which the hedged risk is not a firm and signed commitment but rather a highly probable forecast transaction.

  To the extent that a highly probable transaction gives rise to a firm commitment, the amounts previously recognised in equity are reclassified to the consolidated income statement.
- In hedges of a net investment in foreign operations, the gains or losses attributable to the portion of the hedging instrument qualifying as an effective hedge are recognised temporarily in equity under "Translation Differences". This hedge was used for the equity of CAF USA, Inc.

e) Inventory measurement bases

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

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

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

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

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

f) Recognition of contract revenue and profit

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

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

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

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

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

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

g) Customer advances and completed contract work

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

– if the difference is positive, under "Trade and Other Receivables - Trade Receivables for Sales and Services - Unbilled Completed Contract Work" (see Note 11).

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

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 each year-end, 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 the foreign currency risk are recognised as described in Note 3-d.

i) Current/Non-current classification

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

j) Government grants

The Group companies recognise government grants received as follows:

1. Grants related to assets are recognised at the amount granted, as a reduction of the value of the subsidised asset when they are definitively granted and are credited to income in proportion to the period 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' legal and contractual obligations to certain of their employees in relation to retirement and death are met through premiums in the form of defined contributions and benefits to funds or in the process of being externalised at independent insurance companies (see Note 15). The contributions made in 2010 and 2009 for various groups of employees amounted to EUR 3,460 thousand and EUR 3,619 thousand, respectively, and were charged to "Staff Costs - Other Expenses" in the accompanying consolidated income statements. The Group did not have any amounts payable or any actuarial deficits in this connection at 31 December 2010 or 2009. Also, in accordance with the applicable collective labour agreement, the Parent contributes an additional 1.75% of the annual base salary of all its employees to an employee welfare entity (see Note 22).

Also, the Parent's directors, based on the conclusions of a study conducted by their legal advisers, considered in 2006 that a historical right of certain of its employees had vested. In accordance with the accrual basis of accounting, EUR 931 thousand (31 December 2009: EUR 734 thousand), calculated by an independent valuer, were recognised under "Trade and Other Payables- Other Payables" in the consolidated balance sheet at 31 December 2010. This amount is the difference between the present value of the defined benefit obligations and the fair value of the assets qualifying as plan assets. The future modifications to the commitment assumed will be charged to the income statement for the related year. In 2010 the Group paid EUR 438 thousand (2009: EUR 781 thousand) and made provisions amounting to EUR 635 thousand (2009: EUR 395 thousand) with a charge to "Staff Costs - Wages and Salaries" in the accompanying consolidated income statement (see Note 22).

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

l) Early retirements and termination benefits

At 31 December 2010, "Non-Current Financial Liabilities - Other Financial Liabilities" and "Trade and Other Payables - Other Payables" in the accompanying consolidated balance sheet included EUR 7,592 thousand and EUR 3,509 thousand, respectively, (2009: EUR 8,573 thousand and EUR 3,376 thousand) relating to the present value estimated by the Parent's directors of the future payments to be made to employees that in December 2010 had entered into hand-over contracts and employees that can enter into these contracts up to the end of the term of the collective labour agreement.. This provision was recognised in 2010 with a charge of EUR 2,980 thousand (2009: EUR 6,080 thousand) to "Staff Costs - Wages and Salaries" in the accompanying consolidated income statement (see Notes 18 and 22).

m) Income tax

The expense for income tax and other similar taxes applicable to the foreign consolidated entities are recognised in the consolidated income statement, except when it results from a transaction 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 (tax loss) for the year, after deducting the tax credits allowable for tax purposes, plus the change in deferred tax assets and liabilities, and any tax loss and tax credit carryforwards.

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

Deferred tax liabilities are recognised for all taxable temporary differences, unless, in general, the temporary difference arises from the initial recognition of goodwill. Also, deferred tax assets are recognised for 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, which at the consolidated CAF Group are deemed to be those guaranteed by its backlog. Deferred tax assets (which include those due to temporary differences, 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.

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

n) Leases

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

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

ñ) Provisions and contingent liabilities

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

a) Provisions: credit balances covering present obligations arising from past events, the settlement of which is likely to give rise to an outflow of resources, which is uncertain as to its amount and/or timing.

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

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

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

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

o) Environmental matters

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

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

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

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

In 2010 the Group emitted 17,735 tonnes of CO_2 (2009: 16,975 tonnes), whereas it had been allocated allowances for the emission of 30,927 tonnes for 2010 (2009: 30,873 tonnes). As a result, the Group did not recognise any liability at year-end.

p) Revenue and expense recognition

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

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

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

"Other Non-current Liabilities" in the accompanying consolidated balance sheet at 31 December 2010 and 2009 includes the amount relating to the income received early which is earmarked for meeting the estimated costs of major repairs to be made in maintenance contracts.

q) Consolidated statements of cash flows

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

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

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

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

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

r) Earnings per share

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

In the consolidated financial statements of the CAF Group for the years ended 31 December 2010 and 2009, the basic earnings per share and the diluted earnings per share coincided since there were no potential shares outstanding in those years.

s) Discontinued operations

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

No line of business or business segment was discontinued in 2010 or 2009.

t) Related party transactions

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

4. DISTRIBUTION OF THE PROFIT OF THE PARENT

The distribution of the Parent's profit for 2010 proposed by its directors is as follows:

Distribution	Thousands of Euros
To voluntary reserves	76,655
Dividends	35,995
Total	**112,650**

5. FINANCIAL RISK MANAGEMENT POLICY AND OTHER

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

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

a) Market risk

The various CAF Group companies operate internationally and, therefore, are exposed to foreign currency risk in their foreign currency transactions (particularly the US dollar, Mexican peso, Brazilian real, Pound sterling and Swedish krona). This risk arises on future commercial transactions, balance sheet 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.

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

b) Credit risk

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

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

c) Liquidity risk

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to cover all the Group's commitments on a timely basis (see Notes 13 and 16).

The CAF Group manages liquidity risk by:

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

– Maintaining a strong short-term liquidity position.

– Maintaining undrawn credit balances.

d) Cash flow interest rate and fair value risk

The Group's interest rate risk arises on borrowings.

The Group's policy is to resort in exceptional circumstances only to third-party borrowings in the form of short-term debt tied to variable market indices, normally Euribor. Accordingly, the interest rate risk is substantially mitigated. In this regard, the financial liabilities at 31 December 2010 and 2009 related substantially in full to the concession obtained in Mexico (see Notes 7 and 16) and took the form of structured project financing at a fixed rate without recourse to the other Group companies and, therefore, the sensitivity of the Group's accounts to interest rate fluctuations is very reduced.

e) Risks arising from deviations from project budgets

Deviations from project budgets that served as the basis for drawing up the various offers are covered through the use of a detailed system for reporting each of the cost items, which compares the budget for that item with the actual situation regarding the costs of each project. Accordingly, over the course of the projects, these data are monitored continuously using an internal procedure created for this purpose in which all the departments involved in each project participate.

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

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

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

6. SEGMENT REPORTING

a) Basis of segmentation

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

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

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

b) Basis and methodology for segment reporting

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

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

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

– Railway

– Rolling stock and components

– Concession business

Segment information on the businesses is as follows:

Segmentation by Business Unit	Railway	Rolling Stock and Components	Concession Business	General	Inter-segment	Total
	2010 (Thousands of Euros)					
REVENUE:						
External sales	1,500,919	47,143	28,245	-	-	1,576,307
Inter-segment sales	3,126	43,976	-	-	(47,102)	-
Total sales	**1,504,045**	**91,119**	**28,245**	**-**	**(47,102)**	**1,576,307**
PROFIT (LOSS):						
Profit (loss) from operations	171,744	366	(4,709)	(12,225)	-	155,176
Financial profit (loss) (*)	-	-	(27,307)	2,794	-	(24,513)
Share of net results of associates	(702)	-	(144)	-	-	(846)
Profit (Loss) before tax	**171,042**	**366**	**(32,160)**	**(9,431)**	**-**	**129,817**
Income tax (*)	-	-	7,798	(12,175)	-	(4,377)
Net profit (loss) for the year	**171,042**	**366**	**(24,362)**	**(21,606)**	**-**	**125,440**
Profit (Loss) attributable to non-controlling interests	551	-	3,633	-	-	4,184
Profit (Loss) attributable to the Parent	**171,593**	**366**	**(20,729)**	**(21,606)**	**-**	**129,624**
Depreciation and amortisation charge (Notes 7 and 8)	19,529	7,749	11,053	316	-	38,647
ASSETS	**1,288,396**	**106,315**	**228,321**	**618,266**	**(17,605)**	**2,223,693**
LIABILITIES	**1,258,747**	**18,795**	**275,632**	**114,840**	**(17,605)**	**1,650,409**
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	64,393	8,267	1,569	-	-	74,229
OTHER ITEMS NOT AFFECTING CASH FLOWS:						
Asset impairment - Income (Expense) (Notes 7 and 9)	(5,296)	-	-	(9,080)	-	(14,376)

(*) The financial loss and income tax expense of the "Railway" and "Rolling Stock and Components" segments are included in full in the "General" column since various legal entities coincide and there is no reasonable basis to allocate them by segment.

Segmentation by Business Unit	2009 (Thousands of Euros) Railway	Rolling Stock and Components	Concession Business	General	Inter-segment	Total
REVENUE:						
External sales	1,172,326	68,153	17,562	-	-	1,258,041
Inter-segment sales	21,829	32,526	-	-	(54,355)	-
Total sales	**1,194,155**	**100,679**	**17,562**	**-**	**(54,355)**	**1,258,041**
RESULT:						
Profit (Loss) from operations	134,849	15,555	(13,427)	(1,205)	-	135,772
Financial profit (loss) (*)	-	-	(23,552)	8,437	-	(15,115)
Share of net results of associates	(524)	-	-	-	-	(524)
Profit (Loss) before tax	**134,325**	**15,555**	**(36,979)**	**7,232**	**-**	**120,133**
Income tax (*)	-	-	7,686	(8,113)	-	(427)
Net profit (loss) for the year	**134,325**	**15,555**	**(29,293)**	**(881)**	**-**	**119,706**
Profit attributable to non-controlling interests	243	-	4,394	-	-	4,637
Profit (Loss) attributable to the Parent	**134,568**	**15,555**	**(24,899)**	**(881)**	**-**	**124,343**
Depreciation and amortisation charge (Notes 7 and 8)	10,980	6,276	9,350	268	-	26,874
ASSETS	**1,392,363**	**114,032**	**184,059**	**678,304**	**(19,637)**	**2,349,121**
LIABILITIES	**1,547,784**	**22,490**	**217,520**	**108,519**	**(19,637)**	**1,876,676**
Intangible asset and property, plant and equipment additions (Notes 7 and 8)	85,675	15,403	-	-	-	101,078
OTHER ITEMS NOT AFFECTING CASH FLOWS:						
Asset impairment- Income (Expense)	3,728	-	-	-	-	3,728

(*) The financial profit and income tax expense of the "Railway" and "Rolling Stock and Components" segments are included in full in the "General" column since various legal entities coincide and there is no reasonable basis to allocate them by segment.

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

The external sales figure of the railway segment in 2010 includes sales of goods amounting to EUR 1,394,254 thousand (2009: EUR 1,094,401 thousand), and the remainder relates to the provision of services.

The information based on geographical location is as follows:

a) The breakdown of sales by geographical area at 31 December 2010 and 2009 is as follows (thousands of euros):

Geographical Area	2010	%	2009	%
Spain	639,032	40.54	723,685	57.52
Abroad (*)	937,275	59.46	534,356	42.48
Total	**1,576,307**	**100.00**	**1,258,041**	**100.00**

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

b) The distribution of net investments in property, plant and equipment by geographical area at 31 December 2010 and 2009 is as follows (in thousands of euros):

Geographical Area	2010	2009
Spain	228,937	215,470
Abroad	72,030	59,163
Total	**300,967**	**274,633**

7. OTHER INTANGIBLE ASSETS

The changes in the years ended 31 December 2010 and 2009 in "Other Intangible Assets" and in the related accumulated amortisation were as follows:

	Thousands of Euros				
	Administrative Concessions	Development Expenditure	Computer Software and Other	Goodwill	Total
Balance at 31/12/08					
Cost	164,186	24,159	10,260	5,447	204,052
Accumulated amortisation	(4,209)	(17,364)	(9,307)	-	(30,880)
Net	**159,977**	**6,795**	**953**	**5,447**	**173,172**
Cost					
Inclusions in the scope of consolidation (Note 2-f)	-	273	213	-	486
Additions	(13,560)	12,371	1,314	445	570
Transfers to inventories	-	(2,053)	(236)	-	(2,289)
Disposals or reductions	-	-	-	-	-
Translation differences	6,505	-	6	-	6,511
Cost at 31/12/09	**157,131**	**34,750**	**11,557**	**5,892**	**209,330**
Inclusions in the scope of consolidation (Note 2-f)	-	9,495	240	-	9,735
Additions	1,569	14,360	1,713	-	17,642
Transfers to inventories	-	-	-	-	-
Disposals or reductions	(11)	(47)	(5)	(5,296)	(5,359)
Translation differences	35,350	(3)	5	-	35,352
Cost at 31/12/10	**194,039**	**58,555**	**13,510**	**596**	**266,700**
Accumulated amortisation					
Translation differences	(219)	-	(3)	-	(222)
Inclusions in the scope of consolidation (Note 2-f)	-	(113)	-	-	(113)
Additions or charge for the year	(6,733)	(1,304)	(278)	-	(8,315)
Transfers to inventories	-	-	-	-	-
Disposals or reductions	-	-	-	-	-
Accumulated amortisation at 31/12/09	**(11,161)**	**(18,781)**	**(9,588)**	**-**	**(39,530)**
Translation differences	(2,777)	3	(3)	-	(2,777)
Inclusions in the scope of consolidation (Note 2-f)	-	(519)	(63)	-	(582)
Additions or charge for the year	(7,381)	(3,515)	(475)	-	(11,371)
Transfers	-	-	-	-	-
Disposals or reductions	-	18	3	-	21
Accumulated amortisation at 31/12/10	**(21,319)**	**(22,794)**	**(10,126)**	**-**	**(54,239)**
Net balance at 31/12/09	**145,970**	**15,969**	**1,969**	**5,892**	**169,800**
Net balance at 31/12/10	**172,720**	**35,761**	**3,384**	**596**	**212,461**

The additions in 2010 recognised under "Development Expenditure" relate to the costs incurred in projects for new products, including most notably the new high speed train.

As discussed in Note 3-a, in 2009 the Group transferred approximately EUR 2,289 thousand of capitalised research and development expenditure relating to projects to various contracts obtained that incorporated the technology developed.

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

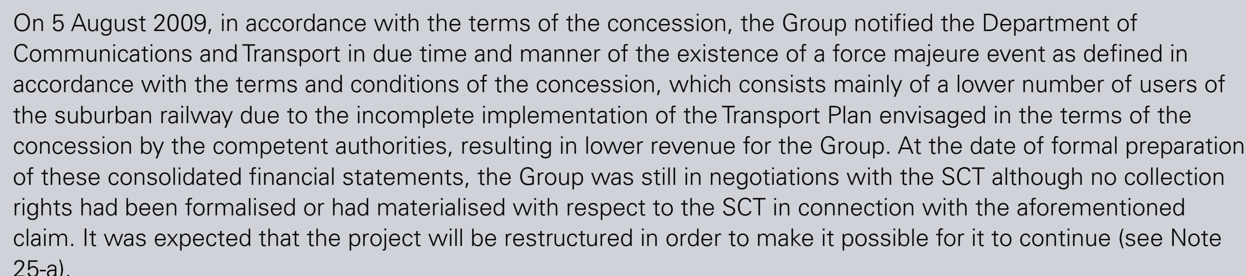
	Thousands of Euros	
	31/12/10	**31/12/09**
CFD Bagneres, S.A.	-	5,296
Lets Ingenieros, S.L.	48	48
Garraiotech, S.L.	445	445
Predictove Ingenieros, S.L.	88	88
Other	15	15
Total	**596**	**5,892**

Based on the estimates and projections available to the Group's directors and the forecast cash attributable to the cash-generating units to which the goodwill was assigned, an impairment loss of EUR 5,296 thousand was recognised on these assets with a charge to "Impairment Losses and Gains or Losses on Disposal of Non-Current Assets" in the accompanying consolidated income statement (no impairment loss was recognised in this connection in 2009).

The amount recognised under "Administrative Concessions" relates to the gross cost incurred and the related accumulated amortisation of the assets required to operate the concession in Mexico, totalling EUR 278,688 thousand and EUR 21,319 thousand (2009: EUR 234,386 thousand and EUR 11,161 thousand), net of the grants received, which amounted to EUR 84,649 thousand at 31 December 2010 (31 December 2009: EUR 77,256 thousand). In 2010, no grants were received in relation to the concession (EUR 12,565 thousand were received in 2009). The Group began to operate the concession in the second quarter of 2008.

This concession was awarded on 25 August 2005 by the Mexican Department of Communications and Transport (SCT) to the subsidiary Ferrocarriles Suburbanos, S.A. de C.V. The concession has a term of 30 years from the date on which the title of concession is signed, after which time the concession operator's assets will be transferred to the concession grantor. The periods in which any events arise not attributable to the concession operator 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 operator may request that the concession term be extended.

In 2008 the Group reached an agreement with the concession grantor whereby the Group will receive an indemnity of EUR 26 million in consideration of delays incurred for reasons beyond its control. This indemnity was recognised in 2008. The directors consider that this amount will be realised in 2011, when the aforementioned negotiations that are being carried out with the Mexican Department of Communications and Transport will also be completed. The indemnity was measured at amortised cost and the income arising from the valuation was recognised at EUR 2,659 thousand in the accompanying consolidated income statement (2009: an expense of EUR 3,591 thousand). Consequently, the account receivable in this connection amounted to EUR 24,540 thousand at 31 December 2010 (31 December 2009: EUR 19,210 thousand), with the rest of the changes relating to the translation differences).



On 5 August 2009, in accordance with the terms of the concession, the Group notified the Department of Communications and Transport in due time and manner of the existence of a force majeure event as defined in accordance with the terms and conditions of the concession, which consists mainly of a lower number of users of the suburban railway due to the incomplete implementation of the Transport Plan envisaged in the terms of the concession by the competent authorities, resulting in lower revenue for the Group. At the date of formal preparation of these consolidated financial statements, the Group was still in negotiations with the SCT although no collection rights had been formalised or had materialised with respect to the SCT in connection with the aforementioned claim. It was expected that the project will be restructured in order to make it possible for it to continue (see Note 25-a).

The directors of the Parent, based on studies commissioned from third parties, consider that the future operation of the concession will make it possible to recover the net cost of the assets used therein. Their recoverable amount was estimated on the basis of their value in use, which was based on assumptions relating to growing passenger numbers reaching stable levels, cash flow generation, the growth rates thereof and market discount rates (WAAC).

The detailed terms and conditions of the concession are included in the general tender specifications.

8. PROPERTY, PLANT AND EQUIPMENT

The changes in the years ended 31 December 2010 and 2009 in the various property, plant and equipment accounts and in the related accumulated depreciation were as follows:

	Thousands of Euros					
	Land and Buildings	Plant and Machinery	Other Fixtures, Tools and Furniture	Other Items of Property, Plant and Equipment	Advances and Property, Plant and Equipment in the Course of Construction	Total
Balance at 31/12/08						
Cost	178,585	186,723	11,233	20,034	2,700	399,275
Accumulated depreciation	(57,158)	(112,782)	(6,720)	(14,257)	-	(190,917)
Net	**121,427**	**73,941**	**4,513**	**5,777**	**2,700**	**208,358**
Cost						
Inclusions in the scope of consolidation (Note 2-f)	-	-	1	10	-	11
Additions	7,789	29,278	7,190	3,443	39,248	86,948
Transfers	24,716	3,079	(544)	45	(27,494)	(198)
Disposals or reductions	(344)	(3,797)	(32)	(352)	(2,793)	(7,318)
Translation differences	1,671	595	371	25	484	3,146
Balance at 31/12/09	**212,417**	**215,878**	**18,219**	**23,205**	**12,145**	**481,864**
Inclusions in the scope of consolidation (Note 2-f)	-	8	128	124	-	260
Additions	5,517	21,116	2,279	3,342	14,338	46,592
Transfers	18,428	2,084	(1,209)	2,621	(22,265)	(341)
Disposals or reductions	(297)	(2,117)	(99)	(30)	-	(2,543)
Translation differences	4,563	1,730	321	478	660	7,752
Balance at 31/12/10	**240,628**	**238,699**	**19,639**	**29,740**	**4,878**	**533,584**
Accumulated depreciation						
Inclusions in the scope of consolidation (Note 2-f)	-	-	-	(2)	-	(2)
Additions or charge for the year	(3,547)	(13,624)	(1,240)	(1,663)	-	(20,074)
Transfers	-	28	28	(24)	-	32
Disposals or reductions	6	3,320	29	351	-	3,706
Translation differences	32	43	(35)	(16)	-	24
Accumulated depreciation at 31/12/09	**(60,667)**	**(123,015)**	**(7,938)**	**(15,611)**	**-**	**(207,231)**
Inclusions in the scope of consolidation (Note 2-f)	-	(1)	(3)	(3)	-	(7)
Additions or charge for the year	(5,778)	(17,705)	(1,645)	(2,148)	-	(27,276)
Transfers	(1,747)	1,554	297	76	-	180
Disposals or reductions	41	2,111	41	25	-	2,218
Translation differences	(168)	(247)	(36)	(50)	-	(501)
Accumulated depreciation at 31/12/10	**(68,319)**	**(137,303)**	**(9,284)**	**(17,711)**	**-**	**(232,617)**
Net balance at 31/12/09	**151,750**	**92,863**	**10,281**	**7,594**	**12,145**	**274,633**
Net balance at 31/12/10	**172,309**	**101,396**	**10,355**	**12,029**	**4,878**	**300,967**

In 2010 and 2009 the Group made investments in order to increase and enhance its production capacity. These investments were made basically in rolling stock, bogies and at the finishing division of the Beasain plant.

Also, in 2009 the Group invested EUR 46,552 thousand in production to incorporate the factory in Brazil and make it operational. These investments were substantially completed at 2009 year-end.

At 31 December 2010 and 2009, the Group had firm capital expenditure commitments amounting to approximately EUR 6,683 thousand and EUR 10,193 thousand.

The consolidated companies take out insurance policies to adequately cover their property, plant and equipment. At 31 December 2010 and 2009, the insurance policies taken out covered the carrying amount of the property, plant and equipment at those dates.

At 31 December 2010 and 2009, the gross cost of fully depreciated assets in use amounted to approximately EUR 143,086 thousand and EUR 136,556 thousand.

Gains (Losses) on the disposal of property, plant and equipment items amounted to approximately EUR 37 thousand in 2010 (2009: EUR (244) thousand) and were recognised under “Impairment Losses and Other Gains or Losses on Disposal of Non-Current Assets” in the accompanying consolidated income statements.

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 2010, the net amount of the grants received not yet allocated to profit or loss totalled EUR 8,615 thousand (31 December 2009: EUR 6,035 thousand). EUR 1,402 thousand were allocated to income in this connection in 2010 (2009: EUR 1,322 thousand), and this amount was recognised under “Depreciation and Amortisation Charge” in the accompanying consolidated income statement.

The directors consider that there was no indication of impairment of the Group's assets at 31 December 2010 or 2009.

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

The changes in the years ended 31 December 2010 and 2009 in "Investments Accounted for Using the Equity Method" and "Non-Current Financial Assets" were as follows:

	Thousands of Euros								
	Investments in Asociadas	Equity Instruments		Other Financial Assets		Derivative Financial Instruments (Note 17)	Loans and Receivables		Total
	Cost	Cost	Impairment Losses	Cost	Impairment Losses	Fair Value	Cost	Impairment Losses	
Balance at 31/12/08	**13,468**	**21,476**	**-**	**1,549**	**-**	**9,196**	**59,941**	**(31,381)**	**74,249**
Changes in the scope of consolidation (Note 2-f) (*)	2,056	-	-	8	-	-	-	-	2,064
Additions or charge for the year (*)	(2,467)	1,621	-	189	-	1,239	9,332	(1,660)	8,254
Disposals or reductions (*)	(866)	-	-	(983)	-	-	(4,920)	-	(6,769)
Transfers and write-offs	-	(456)	-	456	-	(9,196)	(7,014)	2,590	(13,620)
Balance at 31/12/09	**12,191**	**22,641**	**-**	**1,219**	**-**	**1,239**	**57,339**	**(30,451)**	**64,178**
Changes in the scope of consolidation (Note 2-f) (*)	11,385	-	-	(7)	-	-	176	-	11,554
Additions or charge for the year (*)	(6,597)	320	-	143	-	2,025	20,239	(9,671)	6,459
Disposals or reductions (*)	-	(298)	-	(309)	-	-	(495)	2,680	1,578
Transfers and write-offs	-	-	-	-	-	(1,239)	(19,297)	10,464	(10,072)
Balance at 31/12/10	**16,979**	**22,663**	**-**	**1,046**	**-**	**2,025**	**57,962**	**(26,978)**	**73,697**

(*) Including the exchange rate effect.

A detail of the Group's non-current financial assets at 31 December 2009 and 31 December 2010, by nature and category, for valuation purposes, is as follows:

	Thousands of Euros				
	31/12/10				
Financial Assets: Nature / Category	**Available-for-Sale Financial Assets**	**Loans and Receivables**	**Held-to-Maturity Investments**	**Hedging Derivatives**	**Total**
Equity instruments	22,663	-	-	-	22,663
Hedging derivatives (Note 17)	-	-	-	2,025	2,025
Other financial assets	151	30,984	895	-	32,030
Long-term / non-current	**22,814**	**30,984**	**895**	**2,025**	**56,718**

Financial Assets: Nature / Category	Thousands of Euros				
	31/12/09				
	Available-for-Sale Financial Assets	Loans and Receivables	Held-to-Maturity Investments	Hedging Derivatives	Total
Equity instruments	22,641	-	-	-	22,641
Hedging derivatives	-	-	-	1,239	1,239
Other financial assets	251	26,888	968	-	28,107
Long-term / non-current	**22,892**	**26,888**	**968**	**1,239**	**51,987**

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

2010

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

2009

	2011	2012	2013	2014 and Subsequent Years	Total
Loans and receivables	7,337	5,091	4,032	10,428	26,888
Held-to-maturity investments	-	-	-	968	968
Hedging derivatives	767	472	-	-	1,239
Total	**8,104**	**5,563**	**4,032**	**11,396**	**29,095**

a) Investments in associates

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

Name	Location	Line of Business	Ownership Interest Direct	Ownership Interest Indirect	Investments in Associates	Basic Financial Data (1) Share Capital	Basic Financial Data (1) Reserves, Share Premium and Accumulated Profits (Losses)	Basic Financial Data (1) 2010 Profit (Loss)	Revenue	Assets	Auditor
Compañía de Vagones del Sur, S.A.	Jaén (Spain)	Manufacturing	-	35% (2)	818	3,703	(329)	(1,037)	52	22,726	-
Asirys Vision Technologies, S.A.	Guipúzcoa (Spain)	Automated production	-	26% (3)	42	154	8	-	-	176	-
Plan Metro, S.A.	Guipúzcoa (Spain)	Lease services	-	40% (4)	2,822	60	27,074	(847)	344	405,468	Deloitte
Consorcio Traza, S.A.	Zaragoza (Spain)	Ownership of shares	25% (5)	-	13,297	425	53,338	(575)	-	140,518	-

(1) After adjustments and unification for consolidation purposes (in thousands of euros).
(2) Through CAF Santana, S.A., investee also 67% owned. The Company owns all of the shares of Ditecsa Jaén, S.A.
(3) Through CAF I+D, S.L.
(4) Through Inversiones en Concesiones Ferroviarias, S.A.
(5) The consolidated company holds an 80% ownership interest in the public-private entity Los Tranvías de Zaragoza, S.A.

	Thousands of Euros 2010	Thousands of Euros 2009
Beginning balance	**12,191**	**13,468**
Profits of companies and adjustment to margins	(6,597)	(2,467)
Disposals or reductions	-	(866)
Changes in the scope of consolidation	11,385	2,056
Ending balance	**16,979**	**12,191**

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

In 2009 Consorcio Traza, S.A. was jointly incorporated by the Group and other shareholders. This company also incorporated the public-private entity Los Tranvías de Zaragoza, S.A. in which it holds an 80% ownership interest amounting to EUR 10,000 thousand. It also sold 33% of the share capital of Transitia SPE, S.L. for EUR 834 thousand, incurring a loss of EUR 22 thousand.

b) Non-current investment securities

Name	% of Ownership	Investment Cost (Thousands of Euros) 2010	2009
Alquiler de Trenes AIE	5	1,202	1,202
Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A.	10.31	13,220	13,220
Dano-Rail, S.Coop.	20	-	338
Ferromovil 3000, S.L.	10	3,181	3,181
Alquiler de Metros AIE	5	66	66
Plan Azul 07, S.L.	5.2	1,381	1,381
Arrendadora de Equipamientos Ferroviarios, S.A.	15	1,908	1,908
Iniciativa FIK, AIE	6.25	1,656	1,344
FIK Advanlife, S.L.	6	1	1
Other		48	-
		22,663	**22,641**

At 31 December 2010 and 2009, these shares had been pledged to secure a financing agreement entered into by Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A. and a bank on 16 February 2004.

In 2009 and 2008, through the subsidiary Inversiones en Concesiones Ferroviarias, S.L., the Group subscribed to two capital increases at Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A. for EUR 1,309 thousand and EUR 2,043 thousand, having increased the percentage of ownership in the company from 7.6% to 10.31%, respectively.

In addition, since 2008 the Group has held shares representing 6.25% and 6% of the share capital of Iniciativa FIK, A.I.E. and FIK Advanlife S.L., respectively, whose company object is the research, development and use of scientific and technological knowledge. The par value of the shares amounted to EUR 3,125 thousand and EUR 313 thousand, respectively. The Group has outstanding payments for these shares amounting to EUR 1,469 thousand (31 December 2009: EUR 1,781 thousand), payable in six-monthly payments of EUR 156 thousand each.

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

c) Derivative financial instruments

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

d) Loans and receivables

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

	31/12/10	31/12/09
Loans to employees	3,673	3,625
Share ownership scheme obligations	30,690	47,701
Provisions for share ownership scheme	(15,647)	(28,791)
Non-current tax receivables and payables (Note 19)	22,834	5,265
Provisions for tax payables (Note 19)	(11,331)	(1,660)
Other	765	748
Total	**30,984**	**26,888**

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

Loans and receivables (share ownership scheme)

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

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

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

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

The majority of the rights not yet sold to employees at 31 December 2010 relate to the last phase in 2007. All of the schemes were set up under similar terms and conditions.

As a result of the foregoing, at 31 December 2010, the Parent had recognised a gross amount of EUR 30,690 thousand (2009: EUR 47,701 thousand) in relation to these rights under "Non-Current Financial Assets - Loans and Receivables" in the accompanying consolidated balance sheet at 31 December 2010.

However, in order to reduce the cost of the rights acquired to their net recoverable amount, at 31 December 2010, the Group recognised an impairment loss of EUR 29,173 thousand of which EUR 15,647 thousand related to the impairment of non-current financial assets (EUR 32,799 thousand at 31 December 2009, of which EUR 28,791

thousand related to impairment of non-current financial assets) and the remainder to the impairment of current financial assets. At 31 December 2010, the portion of this asset expected to be sold within one year and the related impairment loss were recognised under "Other Current Financial Assets" in the consolidated balance sheet at that date. In 2010, rights with a cost and impairment loss amounting to approximately EUR 7,042 thousand and EUR 946 thousand, respectively, were sold (2009: EUR 3,933 thousand and EUR 482 thousand, respectively).

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

At 31 December 2010 and 2009, Cartera Social, S.A. owned 1,013,897 CAF, S.A. shares, equivalent to 29.56% of its share capital (see Note 14).

Non-current tax receivables

At 31 December 2010, the Group recognised EUR 22,384 thousand under "Non-Current Financial Assets - Loans and Receivables" in connection with the VAT refundable (31 December 2009: EUR 5,265 thousand). In 2010, a provision of EUR 9,080 thousand was recognised (2009: EUR 1,660 thousand) with a charge to "Impairment and Gains or Losses on Disposal of Non-Current Assets" in the accompanying consolidated income statement based on the estimates made regarding the recovery of this tax.

10. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

	Thousands of Euros			
	2010		2009	
Company	**Services Provided or Sales Recognised**	**Services Received or Purchases Recognised**	**Services Provided or Sales Recognised**	**Services Received or Purchases Recognised**
Ferromovil 3000, S.A.	19,009	-	17,042	-
Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A.	1,111	-	3,221	-
Plan Metro, S.A.	211,738	-	44,227	-
Consorcio Traza, S.A.(*)	37,245	-	-	-
Compañía de Vagones del Sur ,S.A. (**)	87	-	516	-
	269,190	**-**	**65,006**	**-**

(*) Including transactions with the public-private entity Los Tranvías de Zaragoza, S.A.

(**) Including finance income of EUR 85 thousand.

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

As a result of the transactions performed in 2010, those performed in previous years and the advances granted, the Group's main balances with investees that were not fully consolidated at 31 December 2010 and 2009 were as follows (see Note 2-f):

	Thousands of Euros					
	31/12/10			31/12/09		
Company	**Accounts Receivable**	**Accounts Payable**	**Net Advances on Stage of Completion**	**Accounts Receivable**	**Accounts Payable**	**Net Advances on Stage of Completion**
Ferromovil 3000, S.A.	-	-	-	7,160	-	-
Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A.	-	-	-	1,583	-	-
Plan Metro, S.A.	3,272	-	100,782	-	8	295,943
Sociedad de Economía Mixta los Tranvías de Zaragoza, S.A.	8,504	-	-	11,636	-	10,031
Iniciativa FIK, AIE	-	469	-	-	313	-
Compañía de Vagones del Sur, S.A. (*)	3,242	-	-	1,960	-	-
	15,018	**469**	**100,782**	**22,339**	**321**	**305,974**

(*) The full amount is recognised under "Other Current Financial Assets".

"Trade and Other Receivables" in the consolidated balance sheet at 31 December 2010 includes an account receivable from Cartera Social, S.A. for waiver rights amounting to EUR 4,763 thousand (31 December 2009: EUR 319 thousand) (see Notes 9 and 14-a).

11. INVENTORIES AND CONSTRUCTION CONTRACTS

The detail of inventories at 31 December 2010 and 2009 is as follows:

	Thousands of Euros	
	31/12/10	**31/12/09**
Raw materials and other procurements, work in progress and finished and semi-finished goods (Note 21)	330,989	289,904
Advances to suppliers	23,917	46,720
	354,906	**336,624**

At 31 December 2010, the Group held firm raw materials purchase commitments amounting to approximately EUR 652,363 thousand (see Note 26) (31 December 2009: EUR 737,732 thousand).

The consolidated companies take out insurance policies to adequately insure their inventories. At 31 December 2010 and 2009, the insurance policies taken out covered the carrying amount of the inventories at those dates.

As described in Note 3-a, the Group capitalises the borrowing costs incurred in the year related to inventories that have a production cycle of more than one year. The amount capitalised in this connection prior to the allocation to income of sales in 2010 was EUR 333 thousand (2009: EUR 474 thousand).

Construction contracts

The cumulative amount of costs incurred and of gains recognised (less the related losses recognised) and the amount of advances received at 31 December 2010 and 2009 is as follows:

	Thousands of Euros	
	31/12/10	**31/12/09**
Deferred billings (asset) (Notes 3-g and 12)	259,856	385,938
Prebillings (liability) (Note 3-g)	(506,701)	(724,079)
Net	**(246,845)**	**(338,141)**
Costs incurred plus gains and losses recognised on stage of completion	2,476,518	1,818,649
Billings made excluding advances	(2,216,671)	(1,432,711)
Advances received	(506,701)	(724,079)
Net	**(246,854)**	**(338,141)**

The retentions at 31 December 2010 amounted to EUR 2,681 thousand (31 December 2009: EUR 12,425 thousand).

12. TRADE AND OTHER RECEIVABLES

The detail of "Trade and Other Receivables" at 31 December 2010 and 2009 is as follows:

	Thousands of Euros	
	31/12/10	**31/12/09**
Trade receivables - in euros	510,728	708,620
Trade receivables - in foreign currency (Note 3-h)	159,808	106,189
Impairment losses (Note 3-d)	(1,136)	(623)
	669,400	**814,186**

These balances receivable arose mainly as a result of the recognition of the stage of completion, as described in Note 3-f. A portion of these balances, approximately 61% (2009: 53%), has been billed to customers. The remainder relates to "Unbilled Completed Contract Work" (see Note 11). The main balances were stated in euros.

At 31 December 2010, 53% of the billed balances receivable related to the top five customers.

At 31 December 2009, 34% of the billed balances receivable corresponded to the top five customers.

The detail of balances past due at 31 December 2010 and 2009 is as follows:

	Thousands of Euros	
	31/12/10	**31/12/09**
Past due > 90 days	34,052	8,142
Past due > 180 days (*)	34,704	22,528
	68,756	**30,670**

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

On the basis of a case-by-case analysis of past-due balances, the CAF Group considered that at 31 December 2010, EUR 1,136 thousand (2009: EUR 623 thousand) posed a collection risk and recognised the corresponding impairment losses.

13. OTHER CURRENT FINANCIAL ASSETS

The detail of "Other Current Financial Assets" at 31 December 2010 and 2009 is as follows:

2010

	Thousands of Euros				
Financial Assets: Nature/Category	**Available-for-Sale Financial Assets**	**Receivables (Notes 9-d and 10)**	**Held-to-Maturity Investments**	**Hedging Derivatives**	**Total**
Spanish government debt securities	-	-	3,360	-	3,360
Financial derivatives	-	-	-	14,972	14,972
Other financial assets	-	8,376	331,759	-	340,135
Short term / current	**-**	**8,376**	**335,119**	**14,972**	**358,467**

2009

	Thousands of Euros				
Financial Assets: Nature/Category	**Available-for-Sale Financial Assets**	**Receivables (Notes 9-d and 10)**	**Held-to-Maturity Investments**	**Hedging Derivatives**	**Total**
Spanish government debt securities	-	-	242,765	-	242,765
Financial derivatives	-	-	-	5,957	5,957
Other financial assets	3	4,844	215,249	-	220,096
Short term / current	**3**	**4,844**	**458,014**	**5,957**	**468,818**

The Group's policy is to invest cash surpluses in government debt securities, repos, short-term deposits, fixed-term deposits or promissory notes. These are short-term investments, the results of which are recognised with a credit to "Finance Income" in the accompanying consolidated income statement. In 2010 the Group recognised income in this connection amounting to EUR 9,696 thousand (2009: EUR 6,722 thousand).

The balance of "Other Current Financial Assets" includes the undrawn balance of the financing received in relation to the suburban railway project amounting to EUR 4,683 thousand (2009: EUR 2,150 thousand) (see Note 16). This undrawn amount is held in the Suburban Railway Master Trust as restricted cash usable only for the investments to be made in this project (see Note 16).

14. EQUITY

a) Share capital of the Parent

At 31 December 2010 and 2009, the Parent's share capital consisted of 3,428,075 fully subscribed and paid shares of EUR 3.01 par value each, traded by the book-entry system, all of which are listed on the stock exchange.

The shareholder companies or entities holding over 3% of the Parent's share capital at 31 December 2010 and 2009 were as follows:

	% of Ownership in 2010	% of Ownership in 2009
Cartera Social, S.A. (Notes 9 and 10) (*)	29.56	29.56
Guipúzcoa Donostia Kutxa	20.06	17.75
BNP Paribas Securities Services	5.47	5.47
Compañía Andaluza de Rentas e Inversiones, S.A.	3.01	-

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

At the Annual General Meeting on 5 June 2010, the shareholders empowered the Board of Directors to acquire treasury shares within five years from that date. At the date of preparation of these consolidated financial statements this acquisition had not been made.

b) Share premium

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

c) Revaluation reserve

The amount held in this reserve in 2010 and 2009 is as follows:

	Thousands of Euros	
	31/12/10	31/12/09
Revaluation of property, plant and equipment:		
Land (IFRS 1)	30,418	30,418
Revaluation reserve Law 9/1983	7,954	7,954
Revaluation reserve Guipúzcoa Decree 13/1991	11,379	11,379
Revaluation reserve Guipúzcoa Regulation 11/1996	8,701	8,701
	58,452	**58,452**

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

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

Revaluation reserve Guipúzcoa Regulation 11/1996

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

d) Legal reserve

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

e) Restricted reserves

The separate financial statements of the consolidated companies include reserves amounting to approximately EUR 13,893 thousand and EUR 12,639 thousand at 31 December 2010 and 2009, respectively, relating to the legal reserve, revaluation reserve, reserve for retired capital and other reserves which are restricted as to their use.

Until the balance of "Research and Development Expenditure" has been fully amortised, no dividends may be distributed unless the balance of the unrestricted reserves is at least equal to the amount of the unamortised balances. Accordingly, at 2010 year-end EUR 26,205 thousand of the reserves were restricted as to their use (2009: EUR 15,969 thousand).

f) Translation differences

The breakdown, by company, of "Translation Differences" at 31 December 2010 and 2009 is as follows:

	Thousands of Euros	
	31/12/10	**31/12/09**
CAF México, S.A. de C.V.	393	(919)
CAF Brasil Ind. e C., S.A.	10,424	3,981
CAF Argentina, S.A.	49	22
CAF USA, Inc.	(171)	(59)
CAF Rail UK, Ltda.	(84)	(96)
CAF Chile, S.A.	178	44
Sefemex, S.A. de C.V.	(21)	(60)
Ferrocarriles Suburbanos S.A. de C.V.	(9,139)	(15,795)
Constructora Mex. del Fer. Sub, S.A. de C.V.	(241)	(768)
Corporación Trainemex, S.A. de C.V.	10	(9)
CAF Turquia, L.S.	(26)	(1)
CAF Argelia, E.U.R.L.	(37)	(42)
CAF India Private Limited	4	-
Ctrens Companhia de Manutençao, S.A.	806	-
	2,145	**(13,702)**

g) Non-controlling interests

The detail of “Equity - Non-Controlling Interests” in the accompanying consolidated balance sheets and of the changes therein in 2010 and 2009 is as follows:

	Thousands of Euros
Balance at 31 December 2008	**15,208**
Loss attributable to non-controlling interests	(4,393)
Changes in the scope of consolidation	266
Other	1,865
Balance at 31 December 2009	**12,946**
Loss attributable to non-controlling interests	(4,184)
Changes in the scope of consolidation (Note 2-f)	(212)
Other	1,110
Balance at 31 December 2010	**9,660**

h) Capital management

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

The directors of the CAF Group consider that the fact that the gearing ratio with recourse to the Parent is minimal is a good indicator of the degree to which the objectives set are being achieved. At 31 December 2010 and 2009, most of the borrowings were directly allocated to activities such as the concession in Mexico (see Notes 3-a and 7). Gearing is taken to be the ratio of net financial debt to equity which is negative in 2010:

	Thousands of Euros	
	31/12/10	**31/12/09**
Net financial debt:		
Refundable advances (Note 15)	66,127	63,808
Bank borrowings - Non-current liabilities (Note 16)	240,565	187,577
Bank borrowings - Current liabilities (Note 16)	20,344	15,817
Current financial assets (Note 13)	(337,508)	(460,279)
Cash and cash equivalents	(55,705)	(81,727)
	(66,177)	**(274,804)**
Equity:		
Of the Parent	563,624	459,499
Non-controlling interests	9,660	12,946
	573,284	**472,445**

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

The detail of the Group's financial liabilities at 31 December 2010 and 2009, by nature and category, for valuation purposes, is as follows:

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

	Thousands of Euros				
	31/12/09				
Financial Assets: Nature / Category	**Held-for-Trading Financial Liabilities**	**Other Financial Liabilities at Fair Value Through Profit or Loss**	**Accounts Payable**	**Hedging Derivatives**	**Total**
Bank borrowings (Note 16)	-	-	187,577	-	187,577
Derivatives (Note 17)	-	-	-	899	899
Other financial liabilities	-	-	61,864	-	61,864
Non-current liabilities / non-current financial liabilities	**-**	**-**	**249,441**	**899**	**250,340**
Bank borrowings (Note 16)	-	-	15,817	-	15,817
Derivatives (Note 17)	-	-	-	6,555	6,555
Other financial liabilities	-	-	14,582	-	14,582
Current liabilities / current financial liabilities	**-**	**-**	**30,399**	**6,555**	**36,954**
Total	**-**	**-**	**279,840**	**7,454**	**287,294**

Other financial liabilities

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

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

	2009
2011	10,076
2012	9,499
2013	8,681
2014	8,074
2015 and subsequent years	25,534
Total	**61,864**

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

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

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

The changes in 2010 and 2009 in relation to the long-term portion of the aforementioned programmes (at present value) were as follows:

	Thousands of Euros
	Refundable Advances
Balance at 31/12/08	**48,703**
Additions	12,872
Transfers to short term	(9,722)
Balance at 31/12/09	**51,853**
Additions	10,737
Transfers to short term	(9,232)
Balance at 31/12/10	**53,358**

Also, the amount recognised in the short term relating to accounts payable for refundable advances amounted to EUR 12,769 thousand at 31 December 2010 (31 December 2009: EUR 11,955 thousand).

In joint projects, the project coordinator is responsible vis-à-vis the Government for the performance of the project and collects the total amount of the aid from the Government. The Group recognises under "Trade and Other Receivables- Other Accounts Receivable" and "Trade and Other Payables - Other Accounts Payable", the amounts receivable from and payable to third parties in connection with the joint projects. At 31 December 2010, the Group presented balances receivable from third parties amounting to EUR 1,502 thousand (at 31 December 2009, the Group did not present any balances receivable from third parties) and recognised an account payable of EUR 3,835 thousand (31 December 2009: EUR 506 thousand) in this connection.

Also, "Non-Current Financial Liabilities - Other Financial Liabilities" in the consolidated balance sheet at 31 December 2010 includes EUR 8,342 thousand and EUR 2,940 thousand relating to obligations to employees and other liabilities, respectively (31 December 2009: EUR 9,235 thousand and EUR 776 thousand) (see Note 3-l).

Other obligations

The detail of the present value of the obligations assumed by the Group relating to post-employment benefits and long-term employee benefits, of the plan assets allocated for the coverage thereof, and of the amounts not recognised at the end of 2010 and 2009, is as follows (see Note 3-k):

	Thousands of Euros	
	31/12/10	**31/12/09**
Present value of employee benefits	18,314	17,567
Less - Fair value of plan assets	17,383	16,833
Trade and other payables - Other payables	**931**	**734**

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

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

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

Actuarial Assumptions	**2010**	**2009**
Discount rate	4.58%(1)	3.88%(1)
Mortality tables	PERM/F 2000P	PERM/F 2000P
Annual pension increase rate	2%(2)	2%(2)
Retirement age	65	65

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

(2) 2.5% for retired employees.

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

The expected return on the plan assets was calculated in accordance with the valuation of the assigned investment portfolio performed by the insurance company Mapfre Vida and in 2010 amounted to 4.58% (2009: 4.21%).

16. BANK BORROWINGS AND OTHER FINANCIAL LIABILITIES

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

	Thousands of Euros			
	31/12/10		**31/12/09**	
	Non-Current	**Current**	**Non-Current**	**Current**
Bank loans and credit accounts	181,342	17,007	150,568	15,817
Unmatured accrued interest	59,223	3,337	37,009	-
Total (Note 15)	**240,565**	**20,344**	**187,577**	**15,817**

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

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

– VAT facilities for a maximum amount of MXP 250 million, earmarked to finance partially or in full any VAT payment. The term of these facilities was established at 45 months from 24 July 2006. The interest rate was set at the Equilibrium Interbank Interest Rate published by the Bank of Mexico +1.25%. Each amount drawn down must be repaid within 90 calendar days from the date of each drawdown. At 31 December 2010, the Group had not drawn down any amount against the VAT credit facility (31 December 2009: EUR 1,077 thousand, equivalent to MXP 20,207 thousand).

– Financing agreement (Loan A) for a maximum amount of MXP 3,414 million in relation to the application of forward exchange rates, paying fixed financing interest as established in the financing agreement. The financing will be repaid in 28 half-yearly payments from 28 June 2008. At 31 December 2010 and 2009, EUR 137,563 thousand and EUR 132,761 thousand, respectively (MXP 2,266 million and MXP 2,491 million, respectively), had been drawn down against this credit facility, net of commissions paid.

The subsidiary will continue to draw down the funds against these credit facilities on the basis of the financing needs of the Suburban Railway Project (see Note 7).

The unused amount drawn down is held in the Suburban Railway Master Trust (see Note 7) and is recognised as restricted cash under "Other Current Financial Assets" in the accompanying consolidated balance sheet (see Note 13).

These long-term facilities include certain restrictive clauses limiting Ferrocarriles Suburbanos S.A. de C.V., inter alia, in respect of the obtainment of new bank loans, the provision of guarantees, the fulfilment of tax payment obligations, the sale of non-current assets, the reimbursement of capital and the fulfilment of certain financial conditions, including, among others, the ratio of total liabilities to share capital. At 31 December 2010 and 2009, the subsidiary was meeting these conditions.

The two aforementioned facilities of the subsidiary Ferrocarriles Suburbanos, S.A. de C.V. are without recourse to the company's shareholders ("project finance"). The VAT facility is secured by the refunds to be made by the Mexican tax authorities of the input VAT borne during the construction period, which is not offset by output VAT since there was none during this period. The financing of MXP 3,414 million was secured by a contingent debt servicing fund amounting to USD 121 million, paid in cash by the Mexican Federal Fund FINFRA into the trust controlling the global cash position of Ferrocarriles Suburbanos, S.A. de C.V. At 31 December 2010, the amount drawn down and the accrued interest payable amounted to EUR 58,259 thousand and EUR 3,336 thousand (31 December 2009: EUR 30,280 thousand and EUR 626 thousand).

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

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

	31/12/09
2011	13,202
2012	13,165
2013	13,165
2014	13,216
2015 and subsequent years	134,829
Total	**187,577**

In addition to this financing, at 31 December 2010, the consolidated companies had been granted various credit lines by banks, basically in euros and bearing interest at market rates, largely tied to EURIBOR plus a market spread, with a limit of EUR 125,944 thousand (31 December 2009: EUR 122,017 thousand). No significant amounts had been drawn down at that date.

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

The breakdown of the net balances of derivatives, basically fair value hedges, recognised in the consolidated balance sheets at 31 December 2010 and 2009 is as follows:

2010

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

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

2009

Currency Put Options at 31/12/09 (Fair Value Hedges)	Maturity (in Currency) 2010	2011	2012 and Subsequent Years
Hedges:			
USD foreign currency hedges	138,638,459	-	-
GBP foreign currency hedges	32,189,619	56,918,622	15,040,694
YEN foreign currency hedges	4,362,660,003	-	-
EUR foreign currency hedges	2,300,040	-	-
MXP foreign currency hedges	484,925,184	-	-
BRL foreign currency hedges	535,322,612	-	-
CAD foreign currency hedges	434,741	-	-

Currency Call Options at 31/12/09 (Fair Value Hedges)	Maturity (in Currency) 2010	2011	2012 and Subsequent Years
Hedges:			
USD foreign currency hedges	133,699,512	10,600,000	2,790,000
GBP foreign currency hedges	782,827	650,000	-
EUR foreign currency hedges	5,197,282	-	-
CHF foreign currency hedges	169,400	-	-

Currency Call Options at 31/12/09 (Cash Flow Hedge)	Maturity (in Currency) 2010
Hedges:	
MXP foreign currency hedges	32,492,400

	Thousands of Euros			
	Fair Value		Cash Flows	
	31/12/10	31/12/09	31/12/10	31/12/09
Hedges:				
USD foreign currency hedges	458	(2,989)	-	-
GBP foreign currency hedges	(11)	1,732	-	-
YEN foreign currency hedges	-	1,518	-	-
MXP foreign currency hedges	(300)	(2,119)	-	(97)
BRL foreign currency hedges	10,735	1,829	-	-
CHF foreign currency hedges	(131)	(131)	-	-
Measurement at year-end (*)	**10,751**	**(160)**	**-**	**(97)**

(*) Before considering the tax effect.

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

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

In 2010 the ineffective portion of the hedging transactions charged to the consolidated income statement gave rise to income of EUR 1,281 thousand (2009: an expense of EUR 1,258 thousand).

Also, the settlement and the change in the value of fair value derivatives amounted to EUR (45,560) thousand (2009: EUR 1,127 thousand), which is similar to the changes in value of the hedged items.

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

18. DEFERRED TAXES

At 31 December 2010, the companies composing the CAF Group basically had the last four years open for review by the tax authorities for the main taxes applicable to their business activities.

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

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

	Thousands of Euros	
	2010	**2009**
Accounting profit before tax	**129,817**	**120,133**
Tax rate of the Parent	28%	28%
Income tax calculated at the tax rate of the Parent	**36,349**	**33,637**
Effect of the different tax rate of subsidiaries	(990)	1,372
Effect of exempt income and non-deductible expenses for tax purposes	1,827	2,835
Effect of tax credits and other tax relief recognised in the year	(27,658)	(27,002)
Tax effect of tax assets and deferred taxes not recognised in previous years and recognised or taken in 2010	(2,238)	(694)
Tax effect of tax assets and deferred taxes not recognised	(1,359)	-
Tax effect of the impairment of tax assets and deferred taxes		-
Adjustments recognised in 2010 relating to prior years' income tax	159	(9,680)
Change in tax rate	(1,713)	-
Other	-	(41)
Total income tax expense (income) recognised in the consolidated income statement	**4,377**	**427**
Current income tax expense (income) (*)	**9,765**	**(2,649)**
Deferred tax expense (income)	**(5,388)**	**3,076**

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

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

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

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

	Thousands of Euros			
	31/12/08	**Additions**	**Disposals**	**31/12/09**
Deferred tax assets:				
Unused tax credits and tax losses (Notes 3-m and 9)	12,603	14,348	(12,603)	14,348
Provisions temporarily not deductible	34,430	11,256	(4,333)	41,353
Share ownership scheme (Note 9)	9,319	-	(135)	9,184
Elimination of profits on consolidation	16,230	8,658	(926)	23,962
	72,582	**34,262**	**(17,997)**	**88,847**
Deferred tax liabilities:				
Unrestricted and accelerated depreciation (Note 7)	2,708	11,831	(939)	13,600
Cash flow hedges (Note 17)	79	-	(52)	27
Revaluation of land (Note 14)	11,829	-	-	11,829
Tax credit for the establishment of companies abroad	3,686	-	(1,843)	1,843
Goodwill	445	288	-	733
Elimination of profits on consolidation and other	2,609	6,398	(45)	8,962
	21,356	**18,517**	**(2,879)**	**36,994**

In 2010 the Group expected to take tax credits amounting to EUR 24,889 thousand (2009: EUR 18,282 thousand) mainly in relation to the tax credit for investment in new non-current assets and the tax credit for R&D. Unused tax credits after projected income tax for 2010 amounted to EUR 37,025 thousand (2009: EUR 11,178 thousand), of which EUR 17,579 thousand are recognised under "Deferred Tax Assets- Tax Credit Carryforwards and Tax Losses" (2009: EUR 8,432 thousand). At 31 December 2010, the recognised tax loss carryforwards amounted to EUR 15,051 thousand (2009: EUR 5,916 thousand).

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

In view of the uncertainty inherent to the recoverability of deferred tax assets, the Group's recognition policy is based on an assessment of its backlog. As required by this policy, the Group did not recognise tax credits and tax loss carryforwards amounting to EUR 24,646 thousand (2009: EUR 2,746 thousand), which will be recognised to the extent that they can be used in the coming years based on the limits and deadlines provided for in current legislation. Also, the Group has unrecognised deferred tax assets amounting to EUR 11,302 thousand (2009: EUR 11,302 thousand).

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

	Thousands of Euros	
	31/12/10	**31/12/09**
Maturing in 2017	366	674
Maturing in 2018	635	866
Maturing in 2019	594	345
Maturing in 2020	644	-
Maturing in 2021	136	-
Maturing in 2022	1	-
Maturing in 2023	19	-
Maturing in 2024	165	62
Maturing in 2025	16,481	-
Maturing in 2027 and subsequent years	3,742	-
Unlimited	1,863	799
	24,646	**2,746**

In calculating the income tax payable for 2010, the Group deducted tax credits amounting to EUR 18,582 thousand (2009: EUR 31,173 thousand), of which EUR 5.378 thousand had been recognised under "Deferred Tax Assets" in the accompanying consolidated balance sheet at 31 December 2009. Also, the differences between the estimated income tax for 2009 and the tax return ultimately filed gave rise to an expense of EUR 159 thousand.

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

Under current legislation taxes cannot be deemed to be finally settled until the tax returns filed have been reviewed by the tax authorities or until the four-year limitation period has expired. At 2010 year-end the Group had 2006 and subsequent years open for review by the tax authorities for income tax and 2007 and subsequent years for the other taxes to which it is subject at the companies which file tax returns in Spain and at the foreign companies, in accordance with local legislation. The Parent's directors consider that they have settled the aforementioned taxes adequately and, therefore, although discrepancies might arise in the interpretation of the tax legislation in force in terms of the tax treatment of transactions, the resulting liabilities, if any, would not have a material effect on the accompanying consolidated financial statements.

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

In 2009 the Group was not subject to any tax audit or inspection.

19. TAX RECEIVABLES AND PAYABLES

The detail of the tax receivables and tax payables at 31 December 2010 and 2009 is as follows:

	Thousands of Euros							
	31/12/10				31/12/09			
	Assets		Liabilities		Assets		Liabilities	
Non-	Current Current	Non-	Current Current	Non-	Current Current	Non-	Current Current	
Social security costs	-	60	-	7,428	-	10	-	6,271
Regular taxes								
VAT (Note 9)	11,503	42,642	-	12,923	3,605	13,426	-	18,205
Other	-	1,097	-	85	-	5,953	-	2,211
Personal income tax withholdings	-	-	-	6,703	-	-	-	4,831
Income tax (Note 3-m)	-	4,324	-	4,013	-	4,368	-	12,823
Grants receivable	-	1,636	-	-	-	1,806	-	-
	11,503	**49,759**	**-**	**31,152**	**3,605**	**25,563**	**-**	**44,341**

20. SHORT- AND LONG-TERM PROVISIONS

Long-term provisions

The Group records provisions under "Long-Term Provisions" for present obligations arising from past events that it expects to settle when they fall due through an outflow of resources. The amount is based on the best estimate made by the Parent's directors at the reporting date and the obligations are recognised at the present value whenever the financial effect is material. In 2010 and 2009 the Group made payments of EUR 1,419 thousand and EUR 877 thousand and made provisions amounting to EUR 904 thousand and EUR 1,942 thousand mainly with a charge to "Staff Costs - Wages and Salaries" (see Note 22) in the consolidated income statement. In 2009 EUR 2,209 thousand were transferred to "Other Non-Current Liabilities" in the accompanying consolidated balance sheet.

Short-term provisions

The changes in "Short-Term Provisions" (see Note 3-ñ) in 2010 and 2009 were as follows (in thousands of euros):

	Warranty and Support Services, Contractual Liabilities, etc. (Notes 3-f and 3-ñ)	Other Provisions (Notes 3-m, 3-ñ and 8)	Total
Balance at 31/12/08	**195,491**	**3,967**	**199,458**
Net charge for the year (Notes 3-ñ and 18)	19,357	(891)	18,466
Transfers	(57)	-	(57)
Balance at 31/12/09	**214,791**	**3,076**	**217,867**
Net charge for the year (Notes 3-ñ and 18)	(12,277)	(50)	(12,327)
Transfers	5,564	-	5,564
Balance at 31/12/10	**208,078**	**3,026**	**211,104**

The provisions at 31 December 2010 and 2009 relate basically to provisions for contractual liabilities (approximately EUR 112 million at 31 December 2010 and EUR 149 million at 31 December 2009, respectively) and for warranties (EUR 99 million at 31 December 2010 and EUR 69 million 31 December 2009, respectively).

The consolidated companies recognised income of EUR 12,277 thousand under "Other Operating Expenses" in the accompanying consolidated income statement for 2010 (an expense of EUR 37,501 and income of EUR 19,035 thousand under "Procurements" in 2009), relating to the difference between the provisions required in this connection at 2010 year-end and those recognised at the end of 2009. The expenses incurred in 2010 and 2009 in connection with the provision of contract warranty services (approximately EUR 36,538 thousand and EUR 32,802 thousand, respectively) were recognised under "Procurements" and "Staff Costs" in the accompanying consolidated income statements for 2010 and 2009.

21. REVENUE AND EXPENSE RECOGNITION

a) Procurements

	Thousands of Euros	
	2010	**2009**
Materials used (*)	767,888	678,139
Work performed by other companies	46,792	82,009
	814,680	**760,148**

(*) 83% in euros, and the remainder mainly in US dollars (2009: 94%).

b) Other operating expenses

	Thousands of Euros	
	2010	**2009**
Outside services	235,411	210,011
Taxes other than income tax	2,544	4,356
Change in operating allowances and other	(11,621)	36,454
Other current management expenses	325	4,251
	226,659	**255,072**

The fees for the audit of the separate and consolidated financial statements (including the six-monthly reviews) of Construcciones y Auxiliar de Ferrocarriles, S.A. and subsidiaries amounted to EUR 808 thousand, of which EUR 646 thousand 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 707 thousand, EUR 645 thousand of which relate to the principal auditor (EUR 427 thousand for audit attest services, EUR 64 thousand for tax services and the remainder for other services).

c) Information on the environment

In 2010 investments amounting to EUR 65 thousand (2009: EUR 2,203 thousand) were made in systems, equipment and facilities designed for environmental protection and improvement.

In 2010 and 2009 the Group did not obtain any environmental grants.

At 31 December 2010, 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.

d) Grants related to income

Most grants transferred to profit or loss in 2010 and 2009 related to grants from various Spanish ministerial programmes from various calls for tenders, justifying the costs incurred.

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

The amount of grants related to income recognised in 2010 under “Other Operating Income” in the accompanying consolidated income statement amounted to EUR 5,953 thousand (2009: EUR 7,422 thousand).

22. AVERAGE HEADCOUNT AND STAFF COSTS

The average headcount in 2010 and 2009 was as follows:

	Average Number of Employees	
Professional Category	**2010**	**2009**
Employees	2,432	2,040
Manual workers	4,506	3,722
Total (*)	**6,938**	**5,762**

(*) At 31 December 2010, there were 7,094 employees (2009: 6,489 employees).

The breakdown, by gender, of the average headcount in 2010 and 2009 is as follows:

	2010		2009	
Professional Category	**Men**	**Women**	**Men**	**Women**
Employees	1,867	565	1,582	458
Manual workers	4,361	145	3,635	87
Total	**6,228**	**710**	**5,217**	**545**

All of CAF's directors are men.

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

	2010	**2009**
Wages and salaries (Notes 3-k, 3-l and 3-ñ)	234,797	208,326
Social security costs	66,790	61,753
Other costs (Note 3-k)	16,573	10,040
	318,160	**280,119**

23. INFORMATION ON THE BOARD OF DIRECTORS

a) Remuneration and other benefits of directors

In 2010 and 2009 the Parent recognised approximately EUR 1,178 thousand and EUR 1,035 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 2010 and 2009, neither the Parent nor the subsidiaries had granted any advances, guarantees or loans to their current or former directors and, except as indicated in Note 3-k, the Group did not have any pension or life insurance obligations to them.

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

Conflicts of interest

In 2010 the members of the Board of Directors and the persons related to them as defined in Article 231 of the Spanish Limited Liability Companies Law did not create directly or indirectly any situations of conflict of interest with the Company.

Investments in companies engaging in identical, similar or complementary activities

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

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

24. REMUNERATION OF SENIOR EXECUTIVES

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

In 2010 and 2009 there were no other transactions with senior executives outside the ordinary course of business.

25. OTHER DISCLOSURES

a) Guarantees and other contingent assets and liabilities

At 31 December 2010, the guarantees provided to the Group by banks and insurance companies for third parties amounted to EUR 2,096,850 thousand (31 December 2009: EUR 2,015,496 thousand) relating basically to technical guarantees in compliance with the orders received. Of this amount, EUR 81,965 thousand related to guarantees for the refundable grants and advances granted by the Ministry of Science and Technology (see Note 15) and other government agencies (2009: EUR 105,773 thousand).

In 2010 arbitration proceedings commenced with a supplier in relation to the suburban railway works in Mexico City and had not been concluded at the date of preparation of these consolidated financial statements.

In 2010 the CAF Group did not identify any material contingent assets or liabilities in addition to the contingent asset described in Note 7 relating to the claim filed by the Group in relation to the concession in Mexico.

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

In relation to the disclosures required by Additional Provision Three of Law 15/2010, of 5 July for these first financial statements prepared since the entry into force of the Law, at 31 December 2010, EUR 19,400 thousand of the balance payable to suppliers were past due by more than the maximum payment period, representing 4.19% of the total balance payable to suppliers and trade creditors.

26. EVENTS AFTER THE BALANCE SHEET DATE

At 31 December 2010, the firm backlog, net of progress billings, amounted to approximately EUR 4,518,903 thousand (31 December 2009: EUR 4,335,623 thousand) (see Note 11). At 31 January 2011, the total was EUR 4,398,843 thousand (31 January 2010: EUR 4,249,293 thousand).

27. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

Approval by the Board of Directors

D. JOSÉ Mª BAZTARRICA GARIJO	Chairman and CEO
D. ANDRÉS ARIZCORRETA GARCÍA	Chief Executive Officer
D. ALEJANDRO LEGARDA ZARAGÜETA	Managing Director
D. JOSÉ ANTONIO MUTILOA IZAGIRRE	Director for Gipuzkoa Donostia Kutxa
D. LUIS MIGUEL ARCONADA ECHARRI	Director
D. JOSÉ MIGUEL DE LA RICA BASAGOITI	Director
D. FERMÍN ARRESE ARRATIBEL	Director
D. XABIER GARAIALDE MAIZTEGUI	Director
D. JOSÉ IGNACIO BERROETA ECHEVARRIA	Director
D. JUAN JOSÉ ARRIETA SUDUPE	Director
D. 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 2010, by the Board of Directors at its meeting on 28 February 2011, the directors have signed this document, consisting of 138 sheets numbered sequentially from 2219 to 2356, inclusive, all approved by the Secretary, who also signs them, countersigned by the Chairman and signed by each of the directors at the end of the document.

San Sebastián, 28 February 2011.

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

Resolutions that the Board of Directors will submit for approval by the shareholders at the Annual General Meeting

Annual General Meeting to be held at the registered office in Beasain, Gipuzkoa, on 4 June 2011, at 12.30 p.m. at first call and, if so required, at the same place and time on the following day.

One. Review and approval, where appropriate, of the financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A., and the financial statements of its consolidated group of companies for 2010 and of the management of the Board of Directors.

Two. Approval of the proposed distribution of profit for 2010 through payment of a dividend of EUR 10.5 per share.

Three. Amendment of the bylaws of Construcciones y Auxiliar de Ferrocarriles, S.A. in order to adapt them to the Spanish Limited Liability Companies Law and other regulatory changes.

Four. Amendment of the regulations of the Annual General Meeting of Construcciones y Auxiliar de Ferrocarriles, S.A. in order to adapt them to the Spanish Limited Liability Companies Law and other regulatory changes, and to the bylaws.

Five. Reappointment of directors.

Six. Reappointment of auditors.

Seven. Empower the Board of Directors with such extensive powers as may be required to execute in a public deed any of the aforementioned resolutions that may so require it, with express powers to clarify, correct or supplement the aforementioned resolutions in accordance with the oral or written classifications given by the Mercantile Registrar and perform any such acts as may be required to secure the registration thereof in the Mercantile Register.

Eight. Approval of the minutes of the meeting.

Proposed distribution of income

To appropriate EUR 112,650 thousand of the Parent's post-tax profit of EUR 35,995 thousand to dividends and EUR 76,655 thousand to voluntary reserves.

Board of Directors

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

At 28 February 2011 the Directors owned 20.071% of the capital stock.

Supplementary Information 2006-2010

Consolidated Balance Sheets
Consolidated Income Statements
Stock market Information

Consolidated Balance Sheets

as of December 31st 2010, 2009, 2008, 2007, 2006 (Thousands of Euros)

Assets	2010	2009	2008	2007	2006
Non-current assets:					
Intangible assets					
Goodwill	596	5,892	5,447	48	-
Other intangible assets	211,865	163,908	167,725	197,508	101,289
	212,461	**169,800**	**173,172**	**197,556**	**101,289**
Property, plant and equipment, net	**300,967**	**274,633**	**204,630**	**171,923**	**155,610**
Investments accounted for using the equity method	**16,979**	**12,191**	**13,468**	**2,064**	**835**
Non-current financial assets	**56,718**	**51,987**	**60,781**	**25,871**	**34,355**
Deferred tax assets	**113,005**	**88,847**	**72,582**	**44,409**	**13,430**
Total non-current assets	**700,130**	**597,458**	**524,633**	**441,823**	**305,518**
Current assets:					
Inventories	**354,906**	**336,624**	**78,875**	**18,929**	**50,893**
Trade and other receivables					
Trade receivables for sales and services	669,400	814,186	642,556	334,372	402,178
Other accounts receivable	77,328	42,768	39,072	21,144	15,629
Current tax assets	4,324	4,368	1,821	1,607	1,008
	751,052	**861,322**	**683,449**	**357,123**	**418,815**
Other current financial assets	**358,467**	**468,818**	**509,539**	**454,835**	**270,659**
Other current assets	**3,433**	**3,172**	**396**	**324**	**820**
Cash and cash equivalents	**55,705**	**81,727**	**116,714**	**24,212**	**9,898**
Total current assets	**1,523,563**	**1,751,663**	**1,388,973**	**855,423**	**751,086**
Total assets	**2,223,693**	**2,349,121**	**1,913,606**	**1,297,246**	**1,056,604**

Equity and Liabilities	2010	2009	2008	2007	2006
Equity:					
Shareholders' equity					
Registered share capital	10,319	10,319	10,319	10,319	10,319
Share premium	11,863	11,863	11,863	11,863	11,863
Revaluation reserve	58,452	58,452	58,452	58,452	56,509
Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method	351,221	268,294	195,648	136,070	106,058
Profit for the year attributable to the Parent	129,624	124,343	105,741	87,626	34,639
	561,479	**473,271**	**382,023**	**304,330**	**219,388**
Valuation Adjustments					
Translation differences	2,145	(13,702)	(19,697)	(3,914)	3,957
Hedges	-	(70)	(204)	496	16
	2,145	**(13,772)**	**(19,901)**	**(3,418)**	**3,973**
Equity Attributable to the Parent	**563,624**	**459,499**	**362,122**	**300,912**	**223,361**
Non-controlling interests	**9,660**	**12,946**	**15,208**	**3,574**	**2,670**
Total equity	**573,284**	**472,445**	**377,330**	**304,486**	**226,031**
Non-current liabilities:					
Long-term provisions	**2,146**	**2,661**	**3,812**	**872**	**1,301**
Non-current financial liabilities					
Bank borrowings	240,565	187,577	160,349	161,232	96,709
Other financial liabilities	66,624	62,763	65,937	92,411	83,887
	307,189	**250,340**	**226,286**	**253,643**	**180,596**
Deferred tax liabilities	**55,934**	**36,994**	**21,356**	**20,593**	**24,491**
Other non-current liabilities	5,546	4,008	-	-	-
Total non-current liabilities	**370,815**	**294,003**	**251,454**	**275,108**	**206,389**
Current liabilities:					
Short-term provisions	**211,104**	**217,867**	**199,458**	**114,995**	**82,310**
Current financial liabilities					
Bank borrowings	20,344	15,817	16,564	26,110	270
Other financial liabilities	21,946	21,137	29,173	20,586	20,171
	42,290	**36,954**	**45,737**	**46,696**	**20,441**
Trade and other payables					
Payable to suppliers	440,363	521,510	445,668	235,016	224,682
Other payables	580,235	793,201	569,792	298,458	278,218
Current tax liabilities	4,013	12,823	23,722	21,852	18,115
	1,024,611	**1,327,534**	**1,039,182**	**555,326**	**521,015**
Other current liabilities	**1,589**	**318**	**445**	**635**	**418**
Total current liabilities	**1,279,594**	**1,582,673**	**1,284,822**	**717,652**	**624,184**
Total equity and liabilities	**2,223,693**	**2,349,121**	**1,913,606**	**1,297,246**	**1,056,604**

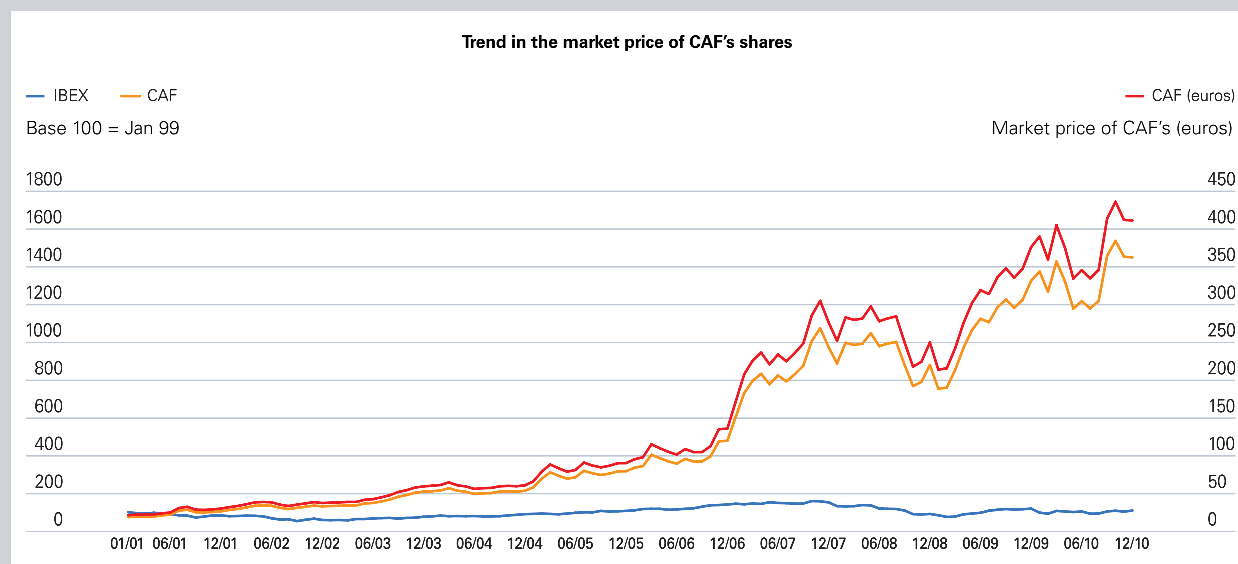
Consolidated Incomes Statements

as of December 31st 2010, 2009, 2008, 2007, 2006, (Thousands of Euros)

(Debit) Credit	2010	2009	2008	2007	2006
Continuing operations:					
Revenue	1,576,307	1,258,041	1,004,951	874,474	805,727
+/- Changes in inventories of finished goods and work in progress	(20,650)	186,063	10,177	(111,892)	(82,481)
In-house work on non-current assets	1,783	827	119	22	67
Procurements	(814,680)	(760,148)	(473,242)	(314,182)	(349,460)
Other operating income	10,221	11,698	40,646	1,989	1,101
Staff costs	(318,160)	(280,119)	(229,466)	(200,130)	(188,224)
Other operating expenses	(226,659)	(255,072)	(230,712)	(122,250)	(122,771)
Depreciation and amortisation charge	(38,647)	(26,874)	(20,674)	(15,120)	(18,019)
Impairment losses and gains or losses on disposal of non-current assets	(14,339)	2,407	182	22	615
Other gains or losses	-	(1,051)	373	(26,849)	(3,061)
Profit from operations	**155,176**	**135,772**	**102,354**	**86,084**	**43,495**
Finance income	14,399	6,763	17,156	8,527	1,641
Finance costs	(32,449)	(26,670)	(12,943)	(609)	(2,695)
Exchange differences	(9,103)	3,947	2,781	3,709	(16)
Impairment and gains or losses on disposal of financial instruments	2,685	845	(2,642)	(107)	(203)
Change in fair value of financial instruments	(45)	-	-	-	-
Financial loss	**(24,513)**	**(15,115)**	**4,352**	**11,520**	**(1,273)**
Result of companies accounted for using the equity method	(846)	(524)	(294)	387	298
Profit before tax	**129,817**	**120,133**	**106,412**	**97,991**	**42,519**
Income tax	(4,377)	(427)	296	(9,690)	(7,869)
Profit for the year from continuing operations	**125,440**	**119,706**	**106,708**	**88,301**	**34,650**
Consolidated profit for the year	**125,440**	**119,706**	**106,708**	**88,301**	**34,650**
Attributable to:					
The Parent	129,624	124,343	105,741	87,626	34,639
Non-controlling interests	(4,184)	(4,637)	967	675	12
Earnings per share (in euros)					
Basic	37,81	36,27	30,85	25,56	10,10
Diluted	37,81	36,27	30,85	25,56	10,10

Stock market information

As of December 31, 2010, the Parent Company's capital stock amounted to e10,318,506 and consisted of 3,428,075 fully subscribed and paid listed shares of e3.01 par value each, traded by the book-entry system.



	2010	2009	2008	2007	2006
Stock market capitalization					
Figures as of December 31	1,336,949,250	1,289,299,008	856,675,943	947,862,738	466,218,200
Per-share data					
Net earnings per share	37.81	36.27	30.85	25.56	10.10
Net income before taxes	37.87	35.04	31.04	28.58	12.40
Dividend per share	10.5	10.5	9.5	8.5	3.20
Per-share net book value	164.41	134.04	105.63	87.78	65.16
Stock market ratios					
PER	10.07	8.27	8.39	9.56	11.14
Average price/EBITDA	6.74	6.2	7.25	8.3	6.25
MV/BV (average price/book value)	2.32	2.24	2.45	2.78	1.73
Dividend yield	2.76%	3.5%	3.67%	3.48%	2.84%
Pay-out	27.77%	28.95%	30.80%	33.25%	31.67%

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

REGISTERED OFFICE

José Miguel Iturrioz, 26
20200 BEASAIN (Gipuzkoa) SPAIN
Phone number: +34 943 88 01 00
Fax: +34 943 88 14 20
Email: caf@caf.net

ADMINISTRATION OFFICES

Padilla, 17
28006 MADRID
Phone number: +34 91 436 60 00
Fax: +34 91 436 03 96
Email: caf@caf.net

SHAREHOLDERS' DEPARTMENT

José Miguel Iturrioz, 26
20200 BEASAIN (Gipuzkoa) SPAIN
Phone number: +34 943 189 262 (Shareholders' assistance telephone)
Fax: +34 943 189 263
Email: accionistas@caf.net