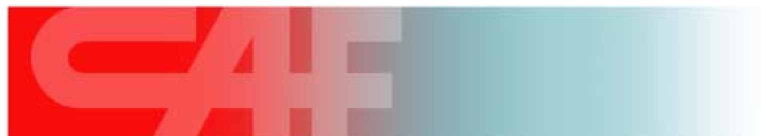
Annual Report 2008

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



Letter from the Chairman 2

Directors' Report of the Consolidated Group 6

· Earnings 7
· Commercial activity 8
· Industrial activity 10
· Human resources 12
· Environmental activity 13
· Investments 14
· Technological development 15
· Risk management policy 17
· Company disclosures 20
· Corporate Governance 24
· Outlook 25
· Events after the Balance Sheet date 25

Letter from the Auditor 26

Financial Statements of the Consolidated Group 28

· Balance Sheets 30
· Statements of Income 32
· Cash flow statements 33
· Statement of Recognised Income and Expense 34
· Statements of changes in equity 35
· Annual Report 36

Approval by the Board of Directors 91

Resolutions submitted by the Board of Directors for the Approval by the Shareholders' Meeting 92

Proposed Distribution of Income 93

Board of Directors 93

Supplementary Information 94

· Consolidated Balance Sheets 96
· Consolidated Statements of Income 98
· Stock market information 99

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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 Shareholder:

As in previous years, it is a pleasure to write to you to present the Directors' Report and Financial Statements for 2008, which we will submit for approval by the shareholders at the Annual General Meeting, in order to highlight the most noteworthy matters that have affected our business over the past year.

I will start by saying that the year just ended can be described as a good year for CAF, in view of the positive results obtained in respect of the backlog, sales, profit and cash flow, which improved on the already positive results of previous years.

In 2008 the sales recognised by the Group amounted to EUR 1,004.9 million, up 14.9% on the previous year.

The Group's profit after tax amounted to EUR 105.7 million, which was 20.7% higher than in 2007. EBITDA stood at EUR 123 million, a significant increase on the EUR 101.2 million reported in 2007. The cash flow generated before tax also increased, reaching EUR 129.9 million.

These figures allow us to propose a gross dividend payment of EUR 9.5 per share to the shareholders at the Annual General Meeting, which is 11.7% higher than in 2007.

The new contracts awarded in 2008 totalled EUR 1,710 million, setting a new backlog record at year-end of EUR 4,137 million. This amount includes a considerable rise in exports, accounting for 48% of the total backlog.

With regard, first of all, to the Spanish market, I would like to draw your attention to the 60 new 9000 and 3000 series train units for the Madrid underground, worth over EUR 400 million. The other commercial activities performed in 2008 resulted in the sale of 11 electric units for Serveis Ferroviaris de Mallorca, 22 trailer cars for the Bilbao underground, 11 units ordered by FEVE in addition to those already delivered in 2007 and several refurbishment contracts for RENFE. This shows that CAF has undertaken new and important tasks in manufacturing and vehicle finishing.

In the export market, most salient was the contract won for 17 units for the Sao Paolo underground and 40 commuter trains also for Sao Paolo, which imply the consolidation of a new market on which CAF had been setting its sights for some time.

Also noteworthy are the contracts won in Saudi Arabia for the supply of 8 locomotives and 40 passenger cars; in Edinburgh for the supply of 27 trams and in Rome for the supply of a further eight units for the city underground. In addition, the contract for 33 three-car units for Izmir has consolidated our presence in the Turkish market as the leading railway supplier.

The most noteworthy deliveries in Spain in 2008 included the high speed units of the 121 series for RENFE. The supply of the Civia second-generation commuter trains for RENFE was also completed, giving rise to the supply of the third-generation units.

Also, various train series continued being supplied to the Madrid and Seville undergrounds. Similarly, the Railways Department of the Catalonia Autonomous Community Government began receiving the third-generation 213 units. The delivery of the first tram units to Vitoria at year-end brought the most significant domestic supplies to a close.

In the international market, mention should be made of the Mexico underground concession, which CAF began operating in 2008. To date, it has been used by over 15 million passengers and our 20 units have travelled more than 2.3 million kilometres.

Also in the international market, worthy of note are the deliveries of high-speed units for the Turkish railways and the first tram units for Antalya, also in Turkey. Deliveries were made of diesel and underground units to Algeria, the latter being for the city of Algiers. Lastly in the international market, the supply of units for the Brussels underground and the refurbishment of light rail units in Pittsburgh (USA) remained ongoing.

The maintenance business continued to gain strength and had a similar volume of business to 2007. The same can be said with respect to rolling stock, the sales of which were very positive, similar to those reported in prior years.

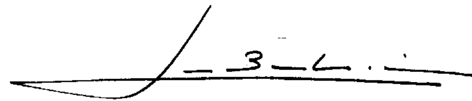
Our sales, profit and backlog have achieved significant growth and are enhanced by the positive projections suggested by the first figures available for 2009. This enables us to face the future with optimism and continue exploring business opportunities with enthusiasm, while proceeding with caution in view of the times in which we live.

Therefore we must endeavour to renew and redouble all of the initiatives aimed at improving our competitive position in the medium and long term. This implies maintaining our firm commitment to investing in R&D&i, optimising operating costs, developing industrial activities and services with a clear focus on the customer and improving the know-how and ongoing training of our employees.

Before I conclude, I would like to congratulate the employees who form part of our Company and who, undoubtedly have always been a key factor to our success. I would ask them to keep up their hard work and commitment so that we can achieve the ambitious objectives we have established. I am certain that, through everyone's enthusiasm and efforts, we will be able to meet new challenges with determination and success.

Once again, I would like to thank you, our shareholders for your trust, which encourages us to keep working for the future of the CAF Group and to improve the response to our customers' expectations on a daily basis.

Thank you,



José María Baztarrica Garijo
Chairman and CEO

An international leader
in its technology, quality and service

CITY/SUBURBANS

Subway Trains

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

Articulated Light Railway Vehicles

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

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

Streetcars

- Antalya
- Bilbao
- Edinburgh
- Lisbon
- Seville
- Valencia
- Vélez-Málaga
- Vitoria

MAIN LINES

High Speed Trains

- High Speed Trains and Variable Gauge Trains S-120 (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

Passenger Cars

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

2008 Directors' Report of the Consolidated Group

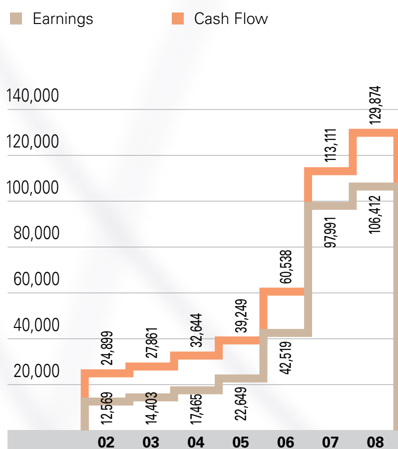
Earnings

Profit after tax amounted to EUR 105,741 thousand in 2008, up approximately 21% on that of 2007.

The aggregates in 2008 were as follows:

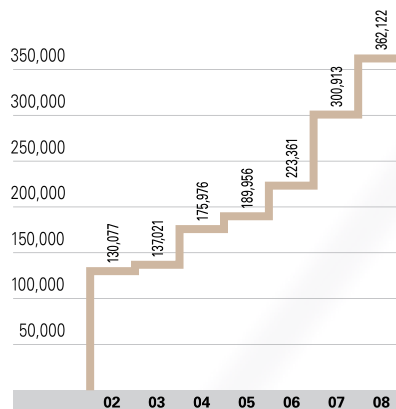
- Profit after tax amounted to EUR 105,741 thousand, up approximately 21% on 2007.
- The depreciation and amortisation charge of EUR 23,462 thousand, plus the profit for the year before tax, generated a cash flow of EUR 129,874 thousand.
- Revenue amounted to EUR 1,004,951 thousand in 2008, up 15% on 2007.
- The backlog amounted to EUR 4,137,431 thousand at 31 December 2008, which is higher than the 2007 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 32,567 thousand of the profit after tax to pay dividends and to allocate EUR 72,702 thousand to voluntary reserves.
- If the proposed distribution of profit is approved, the profit allocated to reserves will raise the Group's equity to a total of EUR 349,456 thousand.
- Lastly, as required by law, CAF declares that neither it nor its subsidiaries purchased or held treasury shares in the course of 2008.

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



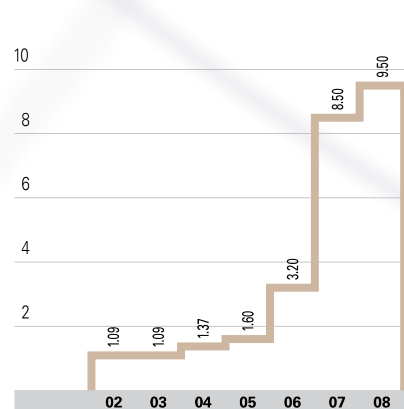
* Consolidated data 2003
2004, 2005, 2006, 2007, 2008 consolidated data, IAS.

Groups shareholder's equity
(thousand of euros)



* Consolidated data 2003
2004, 2005, 2006, 2007, 2008 consolidated data, IAS.

Evolution of dividends/shares
(in euros)



Commercial activity

The backlog at year-end amounted to EUR 4,137 million.

In line with previous years, commercial activity was very intense in 2008, having won contracts worth EUR 1,710 million. At year-end the backlog amounted to EUR 4,137 million.

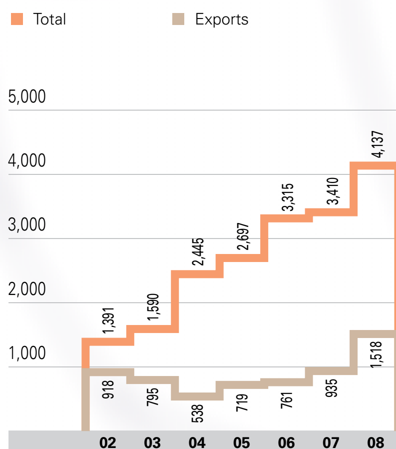
This backlog, which is high in historical terms, shows an increase in the export market component, which accounts for 48% of the total of vehicles.

The contracts placed by RENFE mainly concerned various modifications to the 16 high-speed, variable gauge (AVGL) trains, which had already been ordered, as well as the restructuring of the project, with CAF handling the manufacture and supply of the entire mechanical area. All the foregoing implied EUR 110 million of new contracts.

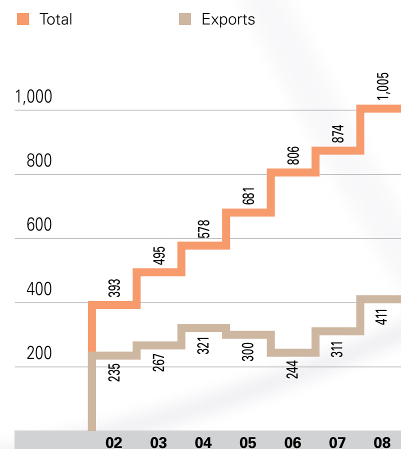
Noteworthy in 2008 was the contract entered into with Metro Madrid for 60 new train units of the 9000 and 3000 series. In the 9000 series three and four-car units with single supply voltage and six-car units with dual voltage will be produced. In the case of the 3000 series four or six-car units with single supply voltage will be produced. This contract is worth over EUR 400 million.

In December 2008, in line with the Research and Development and Technological Innovation (R&D&I) initiatives, which in 2007 developed the BITRAC technological platform of diesel-electric/electric locomotives, the rapid charge accumulator was presented, enabling trams to run on tram circuits defined by the customer as free of overhead power cables. Although this device will initially be fitted to CAF's URBOS III trams, the rapid charge accumulator has been

Order Book
(million of euros)



Revenue
(million of euros)



* Consolidated data 2003
2004, 2005, 2006, 2007, 2008 consolidated data, IAS.

designed to be installed in any type of tram on the market.

The correct functioning of the units supplied with traction equipment manufactured by CAF, both in the Bilbao underground and in the Vitoria tram services, as well as the certification by the Barcelona underground of the traction equipment produced by CAF for operation under overhead power cables of 1,500 volts of continuous current confirms the commercial success of the development of this equipment. At the same time the process for the certification of the three-car CIVIA III unit, fitted with CAF traction equipment, which commenced in 2007, is going ahead, in line with the envisaged dates.

The other contracts in the domestic market concern eleven electric units for SFM (Serveis Ferroviaris de Mallorca), which will be fitted with CAF traction equipment, 22 trailer cars for the Bilbao underground and eleven units in addition to the twelve already ordered by FEVE in 2007.

If the highlight event in the export field in 2007 was the contract with the Santiago de Chile underground, most salient in 2008 was the contract won in Brazil for 17 units for the Sao Paulo underground and 40 commuter train units for Sao Paulo, which will be operated by CPTM (Compañía Paulista de Trenes Metropolitanos). In both cases, apart from the importance of the projects, the contracts imply the consolidation of a market on which CAF had been setting its sights for some time.

In addition, contracts were won in Saudi Arabia for the supply of 8 locomotives and 40 passenger cars; in Edinburgh for the supply of 27 low-floor trams and in Rome for the supply of a further eight units for the underground in that city.

The contract for 33 three-car units for IZMIR in Turkey has consolidated our presence in the Turkish market as one of its leading railway suppliers in recent years.

Maintenance activities continued to grow, representing 35% of the backlog and a business volume in line with that of 2007.

Sales of the rolling stock business remained at very positive levels, similar to those reported in prior years.

Industrial activity

Variable-gauge high-speed trains, shuttle service trains, regional trains, commuter trains, metros unit trains, articulated units, light rail trains, locomotives.

Throughout 2008 the delivery was completed of the last four units for the Seville underground, the five units under the contract extension, the last ten refurbished trains for Pittsburgh, the last six of RENFE's series II CIVIA commuter units, the last unit of the 3,000 series for the Madrid underground, the last eleven trains for the Brussels STIB, the last nineteen additional trailer cars for the Mexican suburban railway network and the CIVIA UTF commuter unit for RENFE.

Also in 2008 deliveries were made of nine high-speed regional trains (AVR) for RENFE, three trains for the Algiers underground, nine trains with diesel traction for Algeria, 18 CIVIA III commuter trains for RENFE, one train for the Turkish TCDD, three diesel-traction trains for RENFE, three electric-traction trains for RENFE, four tram units for Vitoria, six tram units for Antalya (Turkey) and the first S/6000 train for the Bilbao underground.

As regards other projects in various stages of development, noteworthy is the advanced stage of manufacture of the first high-speed variable-gauge (AVGL) train for RENFE, the first 213 series train for FGC, the first two RCP cars for the Rome underground, the first train for the Chilean underground, the first line locomotive for FESUR and the first unit for Line A of Mexico's underground.

Noteworthy insofar as other projects under contract are concerned is the development of engineering activities for the Sao Paulo underground trains and the units for CPTM (Compañía Paulista de Trenes Metropolitanos), also for Sao Paulo, the train units for Izmir (Turkey), the trains for New Delhi (India), the new 9000 series for the Madrid underground, the tram units for Edinburgh, the trains for Saudi Arabia, the new units for EuskoTren and the new project for the Mallorca Railway company.

The most important manufacturing projects in 2008 were as follows:

NO. OF VEHICLES

Train unit (A+B), LRV Pittsburgh refurbished (USA)	20
Seville underground train unit (A+B+C+D+E)	20
3-car CIVIA II commuter train unit (A1+A2+A3) for RENFE	18
6-car S/3000 single-voltage train unit (M1+R1+S1+S2+R2+M2) for the Madrid underground	6
4-car S/3000 dual-voltage train unit (M1+S1+R2+M2) for the Madrid underground	48
Train unit (M+R+N) for the STIB in Brussels	33
High-speed regional (AVR) train units (MC1+Mi1+Mi2+MC2) for RENFE	36
Diesel train unit (M1+R+M2) for Algeria	27
High-speed train unit (TCF+TCB+MIF1A+MIF1B+MIF2+MIFC) for Turkey	6
Train unit (RCB+M1B+M2B+M2A+M1A+RCA) for the Algiers underground	18
Train unit for the Seville underground extension (A+B+C+D+E)	25
5-car CIVIA III commuter train units (A1+A2+A3+A4+A5) for RENFE	90
3-car Middle-Distance diesel train unit (M1+R+M2) for RENFE	9
5-car Middle-Distance diesel train unit (M1+R+M2) for RENFE	3
3-car CIVIA UTF commuter train unit (A1+A2+A3) for RENFE	3
Tram train unit (A+B+C+D+E) for Antalya (Turkey)	30
Vitoria tram unit (A+B+C+D+E) for EUSKOTREN	20
Bilbao underground S/600 train (M1+N1+N2+M2) for CTB	4
Type N trailer cars for Mexican suburban railways	19
TOTAL	**435**

BOGIES

With welded steel chassis (power car + trailer)	942

ROLLING STOCK

Conventionally assembled axles (power car + trailer)	5,452
Variable gauge assembled axles (power car + trailer)	190
Loose axle bodies	11,546
Wheels	50,500
Crane wheels	84
Brackets	647
Couplers	899
Repaired diminishers	70
Rings	105

Other supplementary materials manufactured:

Steel	47,964 tonnes

The repairs carried out included:

Repair of damaged train UT-3504 (Euskotren)	1
TRD resetting (M1+M2) (RENFE)	3
Servicing of train S/200 (Euskotren)	2
Servicing of S/500 bogies for the Bilbao Underground	32
Repair of bogies for Mallorca SFM	7

Human resources

The Group's headcount increased significantly, and the number of the Parent's permanent employees remained stable. The endeavor to take on highly skilled persons continued.

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

	Permanent	*Total*	*Annual Average*
31-12-07	4,152	4,415	4,321
31-12-08	4,550	5,108	4,758

The Group's labour force increased considerably at subsidiary level, although the number of the Parent's permanent employees remained unchanged.

The efforts to hire highly qualified technicians continued, increasing the Group's capacity.

The training and development programmes are becoming more firmly established through the related processes, with specific applications for qualified technicians aimed at performance evaluation and management.

An executive coaching programme was implemented for the general managers of the Group's subsidiaries.

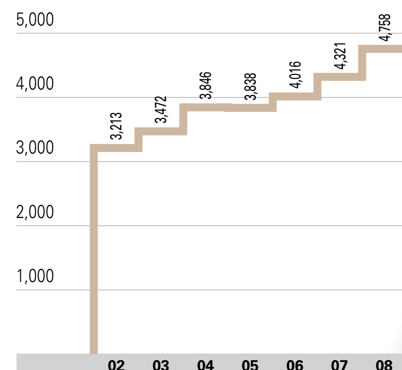
Occupational accidents remained at similar levels to 2007.

The third regulatory audit of the Prevention System was conducted with favourable results.

The series of activities established in the General Prevention Plan and also all those under the specific Prevention Plans for each line of business were carried out.

Employees

(number of persons)



Environmental activity

The Environmental Management System has been implemented at all CAF's manufacturing plants and has been certified under the ISO14001 Standard.

CAF, S.A. is aware that industrial activity affects the environment and therefore its general company policy includes the environmental policy, under which the protection of the environment is assumed as one of the organisation's objectives, also ensuring that the systems, equipment and railway material it produces are of the highest standard, not only insofar as safety and efficiency are concerned but also as regards respect for the environment.

In the manufacturing plants of CAF, S.A., the Environmental Management System certified under the ISO 14001 standard is in place and encompasses organisational structure, the planning of environmental protection activities, as well as the responsibilities, environmental objectives and resources required to implement, review and keep the environmental policy updated.

These activities are carried out with a view to taking the necessary and economically feasible steps aimed at monitoring and, as the case may be, minimising significant environmental factors, such as atmospheric emissions, waste generation and energy consumption, in order to conserve natural resources, logically aligned with the manufacture of rail means of transport that are rated highly from the standpoint of their environmental impact.

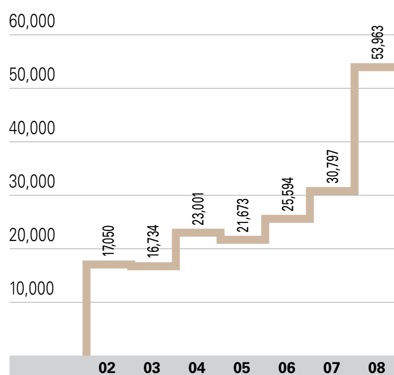
In this connection it is noteworthy that, in compliance with the Kyoto Protocol, greenhouse gas emissions were significantly lower than the levels for 2007 and were also considerably below the rights that had been allocated.

Investments in 2008

Investments amounted to EUR 53,963 thousand and focused mainly on increasing productivity and improving occupational safety and environmental conditions.

The capital expenditure at the plants in 2008 amounted to EUR 53,963 thousand (excluding the exchange rate translation effect). These investments focused mainly on modernising the production facilities in order to increase productivity, enhance safety in the workplace and also to improve environmental conditions.

Investments
(thousand of euros)



* Consolidated data 2003
2004, 2005, 2006, 2007, 2008 consolidated data, IAS.

The most representative investments made in 2008 were as follows:

- Notable in the Vehicles Unit were, in the Bogies Area, the conclusion of the works in the new machining and painting installations and their fitting out. In the Vehicle Finishing Area work continued on updating the assembly lines and considerable investments were also made in the safety procedures for these lines. Also, in the Logistics Area a new robot was purchased for the automated warehouses.

- In the Rolling Stock Business Unit investments in 2008 focused mainly on increasing production capacity and the level of automation in the forging, machining and wheel testing sections. Salient investments included the 10,000 tonne forging press, the robots for handling wheel forging, the acquisition of machining and testing cells and the start made on the construction of new machining installations. Also notable were the investments in the Axles Area, for which new machinery was purchased.

- In the Technology Area, work continued on the ongoing improvement of the design systems and their expansion, with the creation of new jobs. Throughout 2008 the Technology and Engineering Area was equipped with the necessary infrastructure, hardware and software to support the increased number of projects underway at the Company.

- Lastly, significant investments were made in setting up new CAF Group plants and subsidiaries and fitting them with production equipment. Noteworthy investments were made in 2008 in Trenasa (Navarra), Cofema (Madrid) and Tradinsa (Catalonia).

Technological development

CAF's technological development is led by CAF I+D, which, together with the basic aspects of the technologies used by CAF, is complemented with its work to coordinate the developments of its subsidiaries in order to guarantee synergies and achieve better all-round results for the Group.

One of the most salient features of CAF's technological development is that this has moved on from being an activity carried on internally within CAF to one led by CAF I+D (R+D business unit), but distributed among the technology subsidiaries.

CAF I+D's own activities relating to basic technological aspects and the development of cutting-edge products, are complemented with its coordination of its subsidiaries' developments in order to ensure synergies and achieve better all-round results for the Group.

The work of coordination and joint involvement of CAF I+D and the technological subsidiaries on research projects was boosted in 2008 with the approval of the ECOTRANS project by the Centre for Industrial Technological Development, in the context of the fourth CENIT research grants programme. This project, which aims to develop sustainable urban transport, involves three technological subsidiaries of CAF, 13 non-Group companies and 20 technology centres and universities in addition to CAF and CAF I+D.

The technological developments of both CAF I+D and the subsidiaries give rise to a very significant level of cooperation with universities and technology centres, which has become increasingly wide-reaching in terms of both the number of centres involved and the importance of the projects undertaken.

The work carried out in 2008 by CAF I+D related to:

- The AVI 2015 project (High-Speed Interoperability project, subsidised by the CDTI as part of the CENIT programme).
- Start of the project for the 320 Km. per hour (through UIC) and the 300 Km per hour variable-gauge train, a product of the technology developed in the previous programme.
- Initial development of on-board ERMTS signalling equipment.
- Start of the ECOTRANS project.
- Development of general noise and rail dynamics technology projects.
- Completion of the Integrail project, subsidised under the 6th. EU framework programme.
- Participation, together with leading Spanish companies in the industry, in other projects including ELECRAIL, UNICHANGER, etc.

Salient among the developments achieved by subsidiaries were:

- CAF traction equipment fitted to the Vitoria trams (750 VCC) and the Bilbao underground (1500 VCC).
- Bringing into service and certification of the CIVIA train for RENFE and the Barcelona underground with CAF traction.
- Bringing into operation of the energy accumulation module with super condensers and initial tests on a tram.
- Development in the Rolling Stock Unit of high quality steels, visco-elastic sound-proofed wheels and the manufacture of axles with components.

The most significant projects on which the Group worked in 2008 were as follows:

- Antalya trams.
- Trams for Vitoria with CAF traction.
- Edinburgh trams.
- Bitrac locomotives.
- Santiago de Chile underground.
- Line A of Mexico underground.
- Middle-distance diesel units for RENFE.
- Middle-distance electric units for RENFE.
- 600 units for Bilbao underground with Trainelec traction.
- High-speed regional (AVR) trains for RENFE.
- High-speed variable-gauge (AVGL) trains for RENFE.

The following projects were also initiated:

- Sao Paulo underground.
- Electric units for Izmir (Turkey).
- Electric units for CPTM (Brazil).
- Trains for Saudi Arabia.
- Wide and narrow gauge trains for Madrid underground.
- Delhi underground.
- Delhi airport.

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 and the euro). 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.

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

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 and fair value interest rate risk

The Group's interest rate risk arises on borrowings.

The CAF 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.

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, with continuous monitoring of these data 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) Capital structure, 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 conferred by the shares and the percentage of share capital that they represent.

Pursuant to Article 5 of the corporate 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) Any restriction on the transferability of shares.

The Company's bylaws do not place any restrictions on the transferability of the shares, without prejudice to the applicability of certain rules, as described below.

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 as the first notification threshold 3% of the share capital or voting rights.

Also, because CAF is a listed company, the acquisition of a percentage of ownership of 30% or more of the Company's voting power requires that a takeover bid be launched, in the terms provided for in Article 60 of the Spanish Securities Market Law 24/1988 and Royal Decree 1066/2007.

c) Significant direct or indirect ownership interests in the share capital at 31 December 2008.

Name of the Shareholder	*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	17.745	17.745
BNP Paribas Segurities Services Lux A/C Ceda	5.473	0.000	5.473
Aviva International Holdings Ltd.	0.000	3.233	3.233

d) Any restriction on voting rights.

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) Shareholder agreements.

CAF is not aware of the existence of any shareholder 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 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 Appointment 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 Appointment 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 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 procedure for amending the Company bylaws is regulated by Article 144 of the Spanish Companies Law, and the change must be approved by the shareholders at the Annual General Meeting with the quorum and, where appropriate, majority vote, provided for in Article 103 of that Law.

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 Chairman and CEO, 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 Chief Executive Officer, Andrés Arizcorreta García.

The Managing Director, Alejandro Legarda Zaragüeta, 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 7 June 2008 authorised the Board of Directors to derivatively acquire shares of CAF, pursuant to Article 75 of the current Spanish Companies Law. 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 of 5% of the share capital provided for in Additional Provision One of the Spanish Companies Law, without prejudice to the application of such lower limits, within the legal limit approved at that Annual General Meeting, as the Board of Directors might approve or might have approved. The authorisation has a duration of 18 months from the date of the Annual General Meeting.

h) Significant agreements entered into by the Company which will come into force, be modified or terminate in the event of a change in control over the Company resulting from a takeover bid, and their effects, except when disclosure thereof may be seriously detrimental to the Company. This exception will not apply when the Company is legally required 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, management personnel or employees which provide for termination benefits upon the latters' resignation or unjustified dismissal or if the employment relationship ends as a result of a takeover bid.

There are no agreements between the Company and its directors, management personnel 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

2008 Annual Corporate Governance Report Model of Listed Companies

CAF's Annual Corporate Governance Report relative to fiscal year 2008 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

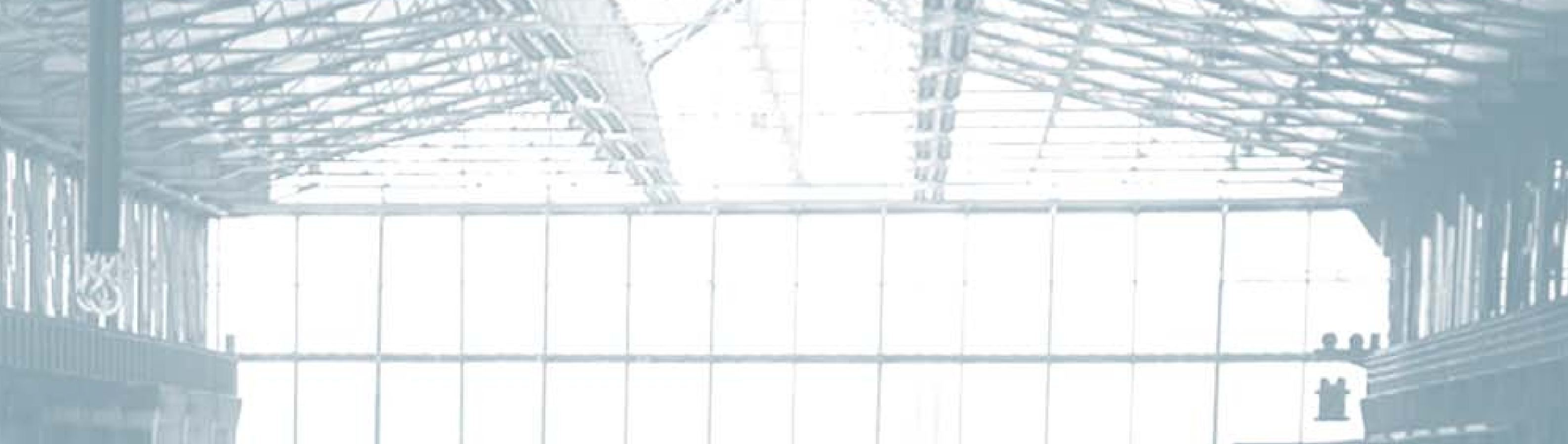
The short-term outlook for CAF may be summarised in the following initiatives:

- Gradual increase in production capacity and standardisation of activities to cater for the increasing backlog.
- Strengthening of the Group in the industrial, technological and organisational areas through fixed asset investments.
- Development of new products and implementation of advanced comprehensive project management systems.
- Increased presence of the Group in international railway material markets.
- Development of the Group's potential in railway-related services, such as concessions and train maintenance.
- Strengthening of the rolling stock business area.

Events after the Balance Sheet date

At 31 January 2009, the Group had a firm backlog of EUR 4,208,712 thousand.

No other significant events occurred subsequent to 2008 year-end.



Letter from the Auditor

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

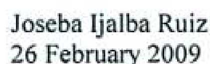
1. We have audited the consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Parent) and Subsidiaries which together compose the CAF Group (see Notes 1 and 2-f) comprising the consolidated balance sheet at 31 December 2008 and the related consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.

2. As required by Spanish corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the figures for 2008 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity, the figures for 2007. Our opinion refers only to the 2008 consolidated financial statements. On 1 April 2008, we issued our auditors' report on the 2007 consolidated financial statements, in which we expressed an unqualified opinion.

3. In our opinion, the accompanying consolidated financial statements for 2008 present fairly, in all material respects, the consolidated equity and consolidated financial position of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries at 31 December 2008 and the consolidated results of their operations, the changes in the consolidated equity and their consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards as adopted by the European Union applied on a basis consistent with that of the preceding year.

4. The accompanying consolidated directors' report for 2008 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 2008. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries.

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



Joseba Ijalba Ruiz
26 February 2009

Financial Statements of the Consolidated Group. Year 2008

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

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

Consolidated Balance Sheets

at 31 December 2008 and 2007 (Notes 1, 2 and 3) (Thousands of Euros)

Assets	31-12-08	31-12-07 (*)
Non-current assets:		
Intangible assets (Note 7)		
Goodwill (Note 2-f)	5,447	48
Other intangible assets	167,725	197,508
	173,172	**197,556**
Property, plant and equipment, net (Note 8)	**204,630**	**171,923**
Investments accounted under the equity method (Note 9)	**13,468**	**2,064**
Non-current financial assets (Note 9)	**60,781**	**25,871**
Deferred tax assets (Note 18)	**72,582**	**44,409**
Total non-current assets	**524,633**	**441,823**
Current assets:		
Inventories (Note 11)	**78,875**	**18,929**
Trade and other receivables		
Trade receivables for sales and services (Note 12)	642,556	334,372
Other accounts receivable (Notes 7 and 15)	39,072	21,144
Current tax assets (Note 19)	1,821	1,607
	683,449	**357,123**
Other current financial assets (Note 9)	**509,539**	**454,835**
Other current assets	**396**	**324**
Cash and cash equivalents	**116,714**	**24,212**
Total current assets	**1,388,973**	**855,423**
Total assets	**1,913,606**	**1,297,246**

Equity and Liabilities	31-12-08	31-12-07 (*)
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 under the equity method	195,648	136,070
Profit for the year attributable to the Parent	105,741	87,626
	382,023	**304,330**
Valuation Adjustments		
Translation differences	(19,697)	(3,914)
Hedges	(204)	496
	(19,901)	**(3,418)**
Equity Attributable to the Parent	**362,122**	**300,912**
Minority interests	**15,208**	**3,574**
Total equity	**377,330**	**304,486**
Non-current liabilities:		
Long-term provisions	**3,812**	**872**
Non-current financial liabilities (Note 9)		
Bank borrowings (Note 16)	160,349	161,232
Other financial liabilities (Note 15)	65,937	92,411
	226,286	**253,643**
Deferred tax liabilities (Note 18)	**21,356**	**20,593**
Total non-current liabilities	**251,454**	**275,108**
Current liabilities:		
Short-term provisions	**199,458**	**114,995**
Current financial liabilities (Note 9)		
Bank borrowings (Note 16)	16,564	26,110
Other financial liabilities (Note 15)	29,173	20,586
	45,737	**46,696**
Trade and other payables		
Payable to suppliers	445,668	235,016
Other payables (Note 15)	569,792	298,458
Current tax liabilities (Note 19)	23,722	21,852
	1,039,182	**555,326**
Other current liabilities	**445**	**635**
Total current liabilities	**1,284,822**	**717,652**
Total equity and liabilities	**1,913,606**	**1,297,246**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the consolidated balance sheet at 31 December 2008.

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

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

Consolidated Income Statements

for the years ended 31 December 2008 and 2007 (Notes 1, 2 and 3) (Thousands of Euros)

(Debit) Credit	2008	2007 (*)
Continuing operations:		
Revenue (Note 6)	1,004,951	874,474
+/- Changes in inventories of finished goods and work in progress	10,177	(111,892)
In-house work on non-current assets	119	22
Procurements (Note 21)	(473,242)	(314,182)
Other operating income (Note 7)	40,646	1,989
Personnel expenses (Note 22)	(229,466)	(200,130)
Other operating expenses	(230,712)	(122,250)
Depreciation and amortisation charge (Notes 7 and 8)	(20,674)	(15,120)
Impairment losses and gains and losses on disposal of non-current assets (Notes 7 and 8)	182	22
Other gains or losses	373	(26,849)
Profit from operations	**102,354**	**86,084**
Finance income	17,156	8,527
Finance costs	(12,943)	(609)
Exchange differences	2,781	3,709
Impairment losses and gains and losses on disposal of financial instruments	(2,642)	(107)
Financial profit	**4,352**	**11,520**
Result of companies accounted for using the equity method (Note 9)	(294)	387
Profit before tax	**106,412**	**97,991**
Income tax	296	(9,690)
Profit for the year from continuing operations	**106,708**	**88,301**
Consolidated profit for the year	**106,708**	**88,301**
Attributable to:		
Shareholders of the Parent	105,741	87,626
Minority interests	967	675
Earnings per share (in euros)		
Basic	30,85	25,56
Diluted	30,85	25,56

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the 2008 consolidated income statement.

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

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

Consolidated Cash Flow Statements

for the year ended 31 December 2008 and 2007 (Notes 1, 2 and 3) (Thousands of Euros)

	2008	2007 (*)
Cash flows from operating activities:		
Profit for the year	106,412	88,301
Adjustments for		
Depreciation and amortisation charge (Notes 7 and 8)	23,790	16,616
Amount credited to profit or loss due to ineffective portion of hedges (Note 17)	-	2
Long-term provisions and other non-current financial liabilities (Notes 3-ñ and 15)	3,583	31,527
Changes in impairment of non-current financial assets (Note 9)	3,948	-
Short-term provisions (Note 20)	30,322	51,729
Other income and expenses	114	-
Gain on disposal of non-current assets (Notes 3-b, 7 and 8)	(182)	(41)
Investments accounted for using the equity method (Note 9)	294	(1,229)
Changes in working capital		
Trade receivables and other current assets (Notes 3-d and 5)	(379,032)	(119,964)
Increase in inventories	159,839	33,040
Trade payables	291,202	20,935
Other cash flows from operating activities		
Income tax recovered (paid) (Note 19)	(21,852)	(22,151)
Other amounts received (paid) from operating activities	(1,113)	(33,054)
Net cash flows from operating activities (I)	**217,325**	**65,711**
Cash flows from investing activities:		
Payments due to investment		
Group companies, associates and business units (Note 9)	(1,013)	(346)
Property, plant and equipment, intangible assets and investment property (Notes 7 and 8)	(89,324)	(137,707)
Other financial assets (Note 9)	(61,433)	(4,561)
Proceeds from disposal		
Property, plant and equipment, intangible assets and investment property (Notes 7 and 8)	497	120
Other financial assets (Note 9)	1,124	9,134
Net cash flows from investing activities (II)	**(150,149)**	**(133,360)**
Cash flows from financing activities:		
Proceeds and (payments) relating to financial liability instruments		
Proceeds from issue (Note 15)	69,211	93,311
Repayment (Note 15)	(14,374)	-
Dividends and returns on other equity instruments paid (Note 14)	(29,139)	(10,970)
Other cash flows from financing activities		
Interest paid	-	-
Other amounts received (paid) from operating activities	(372)	(378)
Net cash flows from financing activities (III)	**25,326**	**81,963**
Net increase in cash and cash equivalents (I+II+III)	**92,502**	**14,314**
Cash and cash equivalents at beginning of year	24,212	9,898
Cash and cash equivalents at end of year	**116,714**	**24,212**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of cash flow 2008.

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

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

Consolidated Statement of Recognised Income and Expense

for 31 December 2008 and 2007 (Notes 1, 2 and 3) (Thousands of Euros)

	2008	2007 (*)
A) Consolidated profit for the year	**106,708**	**88,301**
B) Income and expenses recognised directly in equity	**(16,483)**	**(5,448)**
Arising from revaluation of financial instruments		
Arising from cash flow hedges	(972)	667
Translation differences	(15,783)	(7,870)
Tax effect	272	1,755
Total recognised income and expense (A+B+C)	**90,225**	**82,853**
Attributable to:		
Shareholders of the Parent	89,258	82,179
Minority interests	967	674

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the statement of changes in consolidated recognised income and expense for 31 December 2008.

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

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

Consolidated Statements of Changes in Equity

for the years ended 31 December 2008 and 2007 (Notes 1, 2 and 3) (Thousands of Euros)

	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	Minority interests	Total equity
Balances at 31 December 2006 (*)	**10,319**	**11,863**	**56,509**	**106,059**	**34,639**	**16**	**3,956**	**2,670**	**226,031**
Total recognised income and expense	**-**	**-**	**1,943**	**-**	**87,626**	**480**	**(7,870)**	**674**	**82,853**
Transactions with shareholders and owners	**-**	**-**	**-**	**-**	**(10,970)**	**-**	**-**	**-**	**(10,970)**
Dividends paid	-	-	-	-	(10,970)	-	-	-	(10,970)
Other changes in equity	**-**	**-**	**-**	**30,011**	**(23,669)**	**-**	**-**	**230**	**6,572**
Transfers between equity items	-	-	-	23,669	(23,669)	-	-	-	-
Other valuations (Note 3-m)	-	-	-	6,342	-	-	-	230	6,572
Balances at 31 December 2007 (*)	**10,319**	**11,863**	**58,452**	**136,070**	**87,626**	**496**	**(3,914)**	**3,574**	**304,486**
Total recognised income and expense	**-**	**-**	**-**	**-**	**105,741**	**(700)**	**(15,783)**	**967**	**90,225**
Transactions with shareholders and owners	**-**	**-**	**-**	**-**	**(29,139)**	**-**	**-**	**-**	**(29,139)**
Dividends paid	-	-	-	-	(29,139)	-	-	-	(29,139)
Other changes in equity	**-**	**-**	**-**	**59,578**	**(58,487)**	**-**	**-**	**-**	**11,758**
Transfers between equity items	-	-	-	58,487	(58,487)	-	-	-	-
Other valuations	-	-	-	1,091	-	-	-	-	1,091
Changes in the scope of consolidation	-	-	-	-	-	-	-	10,667	10,667
Balances at 31 December 2008	**10,319**	**11,863**	**58,452**	**195,648**	**105,741**	**(204)**	**(19,697)**	**15,208**	**377,330**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 27 are an integral part of the consolidated statement of changes in equity for 2008.

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

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

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2008

1. Description and activities of the Parent

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

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

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

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

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The consolidated financial statements of the CAF Group for 2008 and 2007 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 CAF Group's consolidated financial statements for 2008 and 2007 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 2008 and 2007 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the years then ended.
- On the basis of the accounting records kept by the Parent and by the other Group companies. However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2008 and 2007 (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 2007 were approved by the shareholders at the Annual General Meeting of CAF on 27 June 2008. The 2008 consolidated financial statements of the Group and the 2008 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 (IFRS)

The Group's consolidated financial statements for the years ended 31 December 2008 and 2007 were prepared in accordance with International Financial Reporting Standards (IFRS), in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of 19 July 2002, taking into account all the mandatory accounting policies and rules and measurement bases with a material effect, as well as the alternative treatments permitted by the relevant standards in this connection.

IFRIC 11 IFRS 2- “Group and Treasury Share Transactions” and the amendment to IAS 39/IFRS 7- “Reclassification of Financial Assets” became effective for the first time in 2008. The adoption of these new interpretations and amendments did not have any impact on the Group's consolidated financial statements.

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 the Years Beginning on or after:**
IFRS 8	Operating segments	1 January 2009
Revision of IAS 23	Borrowing costs	1 January 2009
Revision of IAS 1	Presentation of financial statements	1 January 2009
Revision of IFRS 3 **(1)**	Business combinations	1 July 2009
Amendment to IAS 27 **(1)**	Consolidated and separate financial statements	1 July 2009
Amendment to IFRS 2	Vesting conditions and cancellations	1 January 2009
Amendment IAS 32 and IAS 1 **(1)**	Financial instruments puttable at fair value and obligations arising on liquidation	1 January 2009
Amendment IAS 1 and IAS 27 **(1)**	Cost of an investment in an entity's separate financial statements	1 January 2009
Amendment to IAS 39 **(1)**	Eligible hedged items	1 July 2009
Interpretations		
IFRIC 12 **(1)**	Service concession arrangements	**(3)**
IFRIC 13	Customer loyalty programmes	1 January 2009 **(2)**
IFRIC 14 - IAS 19	The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2009 **(2)**
IFRIC 15 **(1)**	Agreements for the construction of real estate	1 January 2009
IFRIC 16 **(1)**	Hedges of a net investment in a foreign operation	1 October 2008
IFRIC 17 **(1)**	Distribution of non-cash assets to owners	1 July 2009

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

(2) Date of obligatory application as approved in the Official Journal of the European Union.

(3) This interpretation has yet to be confirmed. As published by the EU's Accounting Regulatory Committee (ARC), the interpretation will foreseeably be approved for use in the EU with a new effective date which would defer the obligatory application thereof until 2010. The initial theoretical date established by the IASB for the entry into force of the interpretation was 1 January 2008.

IFRS 8 Operating segments

This standard replaces IAS 14. The main change in this new standard is that IFRS 8 requires an entity to adopt the “management approach” to report on the financial performance of its business segments. Generally, the information to be reported will be that used internally by management to assess segment performance and allocate resources to them. The directors have not yet assessed the impact that the application of this standard will have on the consolidated financial statements.

Revision of IAS 23 Borrowing costs

The principal change in this new revised version of IAS 23 is the elimination of the option of immediate recognition as an expense of borrowing costs associated with an asset that takes a substantial period of time to get ready for its

intended use or sale. This new standard may be applied prospectively. The directors consider that its entry into force will not affect the consolidated financial statements, since it will not lead to a change in accounting policy, as the Group already capitalises such costs.

Revision of IAS 1 Presentation of financial statements

The purpose of the new version of this standard is to improve the ability of users to analyse and compare the information provided in financial statements. These improvements will enable users of consolidated financial statements to analyse changes in equity arising from transactions with owners acting in their capacity as owners (e.g. dividends and the repayment of capital) separately from non-owner changes (e.g. transactions with third parties or income and expenses recognised directly in equity). The revised standard provides the option of presenting income and expense items and components of other comprehensive income either in a single statement of comprehensive income with subtotals or in two separate statements (a separate income statement followed by a statement of comprehensive income).

IAS 1 also introduces new reporting requirements when the entity applies an accounting policy retrospectively, makes a restatement or reclassifies items in previously issued financial statements, as well as changes in the names of certain financial statements with a view to reflecting their function more clearly (e.g. the balance sheet will be called the statement of financial position).

The effects of this standard mainly concern presentation and disclosure.

Revision of IFRS 3 Business combinations and amendments to IAS 27 Consolidated and separate financial statements

These standards were issued as a result of the project for the convergence of international principles relating to business combinations with US accounting standards. The revised IFRS 3 and the amendments to IAS 27 give rise to very significant changes in several matters relating to accounting for business combinations which, in general, place greater emphasis on the use of fair value. Since the changes are significant, set forth below are certain of these changes, merely for illustration purposes: acquisition costs, which will be taken to expenses rather than be considered to be an increase in the cost of the business combination as per the current accounting treatment; step acquisitions, in which the acquirer revalues the investment at fair value on the date control is obtained; or the option to measure at fair value the minority interests of the acquiree rather than measure them as the proportional part of the fair value of the net assets acquired as per the current accounting treatment. Since the standard will be applied prospectively, in general the directors do not expect any significant modifications to arise in connection with the business combinations performed. However, the directors have not yet assessed the possible impact that the application of this standard may have on future business combinations and their respective effects on the consolidated financial statements.

Amendment of IFRS 2 Share-based payment

The objective of the amendment to IFRS 2 is basically to clarify in the standard the concepts of vesting conditions and cancellations in share-based payments. The directors consider that the entry into force of the amendment will not have a significant effect on the consolidated financial statements.

Amendment to IAS 32 and IAS 1 Financial instruments puttable at fair value and obligations arising on liquidation

The amendments approved relate to the classification of certain financial instruments issued that, although their characteristics might suggest that they represent a residual interest in the entity, under the current IAS 32 they must be classified as financial liabilities since they are, inter alia, puttable. The amendments will allow certain of these financial instruments to be classified as equity provided they meet certain requirements including that of being the most subordinate instrument and that they represent a residual interest in the net assets of the entity.

This amendment to IAS 39 aims to clarify two specific hedge accounting issues: (a) when inflation can be a hedged risk, and (b) when purchased options can be designated as hedges. According to the amendment inflation may only be hedged if it is a contractually specified portion of the cash flows to be hedged. Only the intrinsic risk, but not the time value of an option may be hedged.

The directors consider that the entry into force of this amendment will not have a significant effect on the Group's consolidated financial statements because it has not arranged any hedges of the type affected by the amendment.

IFRIC 12 Service Concession Arrangements

Service concession arrangements are arrangements whereby a government or other public sector entity grants arrangements for the provision of public services, such as roads, airports, water and power supplies to private sector operators. The government retains control over the assets but the private operator is responsible for the construction, management and maintenance of the public infrastructure. IFRIC 12 establishes how the concession operators must apply the existing IFRS when accounting for the rights and obligations assumed under arrangements of this type. The Group has applied this IFRIC early since 2008 (see Note 7).

IFRIC 13 Customer Loyalty Programmes

This interpretation addresses accounting by an entity that grants loyalty bonuses in the form of award credits (through "points", "kilometres", etc.) to customers that buy goods or services. Specifically, it explains how such an entity should account for its obligations to provide free or discounted goods or services (through "points", kilometres", etc.) to customers who redeem those points.

The interpretation requires entities to allocate a portion of the revenue from the initial sale to award credits, recognising them as revenue only when they fulfil their obligations, supplying those awards or paying third parties to do so. The directors consider that the entry into force of this interpretation will not have a significant effect on the consolidated financial statements.

IFRIC 14 - IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction

IFRIC 14 provides general guidelines on how to check the limit provided for in IAS 19 "Employee Benefits" on the amount of the excess that can be recognised as an asset. It also explains how the pension plan assets or liabilities might be affected when there is a statutory or contractual minimum funding requirement, establishing the need to recognise an additional liability if the entity has a contractual obligation to make additional contributions to the plan and its capacity to recover them is restricted. The interpretation will standardise practices and ensure that entities recognise an asset in relation to an excess on a consistent basis. The directors consider that the entry into force of the interpretation will not have a significant effect on the consolidated financial statements.

IFRIC 15 Agreements for the construction of real estate

This interpretation addresses the recognition of revenue and expenses associated with the construction of real estate, helping to clarify when an agreement for the construction of real estate falls under IAS 11 Construction Contracts and when it is within the scope of IAS 18 Revenue and, therefore, depending on the nature of the agreement, when and how they should be recognised. The directors consider that the entry into force of this interpretation will not have any impact on the consolidated financial statements.

IFRIC 16 Hedges of a net investment in a foreign operation

This interpretation addresses three main issues: firstly, that the risk arising from the foreign exchange differences between the functional currency of the foreign operation and the presentation currency of the parent may not be hedged. Secondly, it clarifies that the hedging instrument used to hedge the net investment may be held by any

group entity, not only by the parent of the foreign operation and, lastly, it clarifies how the entity should determine the amounts to be reclassified from equity to profit or loss when the entity disposes of the investment.

The Company's accounting practice in transactions of this nature is in line with the interpretation issued and, therefore, the entry into force of the interpretation will not have any impact on the consolidated financial statements.

IFRIC 17 Distributions of non-cash assets to owners

This interpretation addresses the accounting treatment of distributions of assets other than cash to an entity's owners ("dividends in kind") although the distribution of assets within the same group or between entities under common control is excluded from its scope. The interpretation establishes the recognition of the obligation at the fair value of the asset to be distributed and any difference between this value and the carrying amount of the asset is to be recognised in profit or loss. This interpretation will have an impact in the future only to the extent that this type of transaction is performed with owners.

c) Functional currency

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

The detail of the equivalent euro value of the assets and liabilities in currencies other than the euro held by the CAF Group at 31 December 2008 and 2007 is as follows:

	Equivalent Value in Thousands of Euros			
	31.12.08		31.12.07	
Currency	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Chilean peso	240	241	-	-
Mexican peso	259,747	236,153	359,930	259,636
Argentine peso	2,673	889	2,311	629
Brazilian real	63,487	1,140	4,101	767
US dollar	6,458	3,502	13,751	6,664
Pound sterling	1,591	1,132	1,672	1,144
Total	**334,196**	**243,057**	**381,765**	**268,840**

The detail of the main balances of subsidiaries with functional currencies in a foreign currency, based on the nature of the items making them up, is as follows:

	Equivalent Value in Thousands of Euros			
	31.12.08		31.12.07	
Nature of the Balances	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Other intangible assets	158,586	-	194,884	-
Trade and other receivables	45,006	-	30,489	-
Other current financial assets	42,955	-	113,140	-
Cash and cash equivalents	72,008	-	7,909	-
Non-current liabilities	-	158,755	-	161,148
Current liabilities	-	81,378	-	102,242
Other	15,641	2,924	35,343	5,450
Total	**334,196**	**243,057**	**381,765**	**268,840**

d) Use of estimates

In the consolidated financial statements of the CAF Group for 2008 and 2007 estimates were occasionally used.

Although these estimates were made on the basis of the best information available at 31 December 2008 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 2007 that might have had a significant impact on these consolidated financial statements.

e) Comparative information

As required by IAS 1, the information contained in these notes to the consolidated financial statements for 2008 is presented, for comparison purposes, with information relating to 2007.

The 2007 consolidated financial statements, which are included for comparison purposes, were also prepared in accordance with IFRS as adopted by the European Union on a basis consistent with that applied in 2008.

To achieve greater reconciliation with the figures reported to the Spanish National Securities Market Commission (CNMV), the Group has reclassified for comparison purposes certain items in the consolidated balance sheet in the balances for 2007. The aforementioned reclassifications relate to scantly significant amounts and do not affect the main aggregates (working capital, borrowings, etc.).

Although they have no impact on profit or equity, the Group has increased its trade receivable and payable, and its provision balances at 31 December 2008. At 31 December 2007, a portion of the amounts recognised as liabilities were recognised as a reduced asset balance.

f) Consolidable Group and consolidation principles

Scope of consolidation

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

The accompanying consolidated financial statements for the year ended 31 December 2008 were prepared from the individual accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. (Parent - see Note 1) 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 (Spain)	Marketing and manufacture of railway equipment and components.	Deloitte
CAF USA, Inc.	100%	Delaware (USA)	Manufacture and assembly of railway equipment and components.	Deloitte
CAF México, S.A. de C.V.	100%	Mexico City (Mexico)	Marketing and manufacture of railway equipment and components.	Deloitte
CAF Brasil Industria e Comercio, S.A.	100%	Sao Paulo (Brazil)	Repair and maintenance of railway equipment and components.	Deloitte
CAF Argentina, S.A.	100%	Buenos Aires (Argentina)	Repair and maintenance of railway equipment and components.	Ernst & Young
CAF Irlanda, Ltda.	100%	Belfast (N. Ireland)	Repair and maintenance of railway equipment and components.	Deloitte
CAF Italia, S.R.L.	100%	Rome (Italy)	Repair and maintenance of railway equipment.	Deloitte
CAF Chile, S.A.	100%	Santiago de Chile (Chile)	Repair and maintenance of railway equipment.	-
CAF Francia, S.A.S.	100%	Paris (France)	Manufacture and maintenance of equipment.	-
CAF Turquía, L.S.	100%	Istanbul	Manufacture and maintenance of equipment.	-
CAF Argelia, E.U.R.L.	100%	Algiers (Algeria)	Manufacture and maintenance of equipment.	-
CFD Bagneres, S.A.	60%	Paris (France)	Manufacture and maintenance of equipment.	Grant Thornton
Trenes de Navarra, S.A.	97.65%	Navarra (Spain)	Manufacture and assembly of railway equipment and components.	Deloitte
Construcciones Ferroviarias de Madrid, S.L. (Sole-Shareholder Company)	100%	Madrid (Spain)	Manufacture and assembly of railway equipment and components.	Horwath Spain
Construcciones Ferroviarias CAF-Santana, S.A.	67%	Jaén (Spain)	Manufacture and assembly of railway equipment and components.	Deloitte
Tradinsa Industrial, S.A.	96%	Lleida (Spain)	Railway material repair and maintenance.	Deloitte

	% of Control or Influence	Location	Line of Business	Auditor
Technology Subgroup				
CAF I+D, S.L. (Sole-Shareholder Company)	100%	Guipúzcoa (Spain)	R&D in connection with railway materials.	-
Traintic, S.L.	99.9%	Guipúzcoa (Spain)	Manufacture of electronic products.	BSK-Bask Consulting, S.L.
Trainelec, S.L.	100%	Guipúzcoa (Spain)	Electronic power equipment.	Deloitte
Nuevas Estrategias de Mantenimiento, S.L.	85%	Guipúzcoa (Spain)	Technology solutions.	BSK-Bask Consulting, S.L.
Desarrollo de Software Miramon 4, S.L.	60%	Guipúzcoa (Spain)	Software development.	BSK-Bask Consulting, S.L.
Bizkaia Ferroviaria, S.L.	100%	Vizcaya (Spain)	Engineering services.	BSK-Bask Consulting, S.L.
Centro de Ensayos y Análisis Cetest, S.L.	100%	Guipúzcoa (Spain)	Trials and accreditation.	BSK-Bask Consulting, S.L.
Lets Ingenieros, S.L.	52.11%	Madrid (Spain)	Technical projects, electronic engineering and manufacture of electronic equipment.	-
Seinalia, S.L.	100%	Guipúzcoa (Spain)	Design, manufacture and retailing of signalling equipment.	-
Predictove Ingenieros, S.L.	100%	Guipúzcoa (Spain)	Predictive maintenance services.	-
Lander Simul. and Training Solutions, S.A.	57%	Guipúzcoa (Spain)	Study and manufacture of simulators.	S.M. Auditores
Services Subgroup				
Actren, S.A. (**)	51%	Madrid (Spain)	Maintenance of railway equipment.	Deloitte
Sermanfer, S.A. (Sole-Shareholder Company)	100%	Madrid (Spain)	Railway material maintenance services.	Audyge
Sefemex, S.A. de C.V.	100%	Mexico City (Mexico)	Provision of services and administration of personnel.	Almaguer, Guerrero y Cia
Corporación Trainemex, S.A. de C.V.	100%	Mexico City (Mexico)	Administrative and advisory services.	Almaguer, Guerrero y Cia
Inversiones en Concesiones Ferroviarias, S.A.	100%	Guipúzcoa (Spain)	Promotion of companies through ownership interests.	Arco Auditores
Urbanización Parque Romareda, S.A.U.	100%	Zaragoza (Spain)	Ownership of shares.	-
Ferrocarriles Suburbanos, S.A. de C.V.	85%	Mexico City (Mexico)	Passenger land transport services.	Deloitte
Ibaia Energía, S.L.	100%	Guipúzcoa (Spain)	Power generation.	BSK-Bask Consulting, S.L.
Sempere Componentes, S.L.	100%	Guipúzcoa (Spain)	Marketing of components.	BSK-Bask Consulting, S.L.
Agarregune, S.L.	100%	Guipúzcoa (Spain)	Fostering initiative and business investment.	-

	% of Control or Influence	Location	Line of Business	Auditor
Construction Subgroup				
Constructora de Sistemas Ferroviarios, S.L.	100%	Guipúzcoa (Spain)	Railway line operating equipment.	Deloitte
Constructora Mex. del Fer. Sub., S.A. de C.V.	100%	Mexico City (Mexico)	Railway line operating equipment.	Deloitte
Companies accounted for using the equity method (Note 9)				
Industrial Subgroup				
Compañía de Vagones del Sur, S.A.	23.45%	Jaén (Spain)	Manufacture of freight wagons.	-
Ditecsa Jaén, S.L.	23.45%	Jaén (Spain)	Assembly of mechanical parts and engines.	-
Technology Subgroup				
Asirys Vision Technologies, S.A.	26%	Guipúzcoa (Spain)	Study and manufacture of automated production systems.	S.M. Auditores
Services Subgroup				
Plan Metro, S.L.	40%	Madrid (Spain)	Operating lease of mobile railway material.	Deloitte
Transitia, Sociedad de Promoción de Empresas, S.L.	33%	Vizcaya (Spain)	Promotion and management of people transportation .	-

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

Changes in the scope of consolidation

In 2008 the Group acquired the remaining 22.43% of the Group company Inversiones en Concesiones Ferroviarias, S.A. for EUR 4,500 thousand, the carrying amount of the company at acquisition date being EUR 1,363 thousand.

At the end of 2008 the Group disposed of 15% of the ownership interest in the subsidiary Ferrocarriles Suburbanos S.A. de C.V. for EUR 15,756 thousand, which is the same as the cost of the initial investment.

On 13 March 2008, (effective transaction date) the Group acquired 60% of the share capital of the French company Construction Ferroviaire de Bagnères, S.A., which owns 100% of the share capital of Conception et Developement, S.A. This transaction forms part of the Group's planned expansion. This company also owned 100% of Conception Ferroviaire et Developement, S.A.S., having merged in 2008. This acquisition gave rise to goodwill amounting to EUR 5,296 thousand.

The price paid (cost of the business combination) for the acquisition of this line of business amounted to EUR 8,040 thousand and was paid in cash. Cash and cash equivalents acquired at the acquisition date amounted to approximately EUR 4,744 thousand.

These companies engage in the design, technical study and manufacture of railway vehicles and, therefore, form part of the Group's railway segment. This transaction was accounted for by the purchase method of accounting as follows:

	Thousands of Euros		
	Carrying Amount at the Date of Acquisition(*)	**Fair Value Adjustments**	**Fair Value**
Net assets acquired:			
Non-current assets	1,636	-	1,636
Current assets	15,062	-	15,062
Non-current liabilities	(806)	-	(806)
Current liabilities	(11,319)	-	(11,319)
Total			**4,573**
Corresponding to CAF (60%)			**2,744**
Goodwill (Note 7)			**5,296**
Purchase price			**8,040**

(*) Figures for the subgroup acquired.

The cash generating units in relation to goodwill refer to the legal entities themselves.

The remaining changes in the scope of consolidation in 2008 relate to the incorporation of Seinalia, S.L., CAF Turquía, L.S., CAF Francia, S.A.S., CAF Argelia, E.U.R.L., Agarregune, S.L., Transitia, Sociedad de Promoción de Empresas, S.L., Ditecsa Jaén, S.L. and Corporación Trainemex, S.A. de C.V. for EUR 1,000 thousand, EUR 1 thousand, EUR 200 thousand, EUR 230 thousand, EUR 60 thousand, EUR 1,003 thousand, EUR 3 thousand and EUR 4 thousand, respectively.

In 2007 10% of the shares of Trenes de Navarra, S.A.U., a company incorporated in 2006, were sold for EUR 200 thousand. The Group also acquired 52.11% of Ingenieros, S.L. and incorporated the following companies: Centro de Ensayos y Análisis Cetest, S.L., Bizkaia Ferroviaria, S.L., Actren, S.L., Desarrollo Software Miramon 4, S.L., Sempere Componentes, S.L., Trainelec, S.L., Nuevas Estrategias de Mantenimiento, S.L., Ibaia Energia, S.L., CAF Chile, S.A. and Compañía de Vagones del Sur, S.A. for a total of EUR 3,455 thousand.

Consolidation method

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

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

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

Translation of financial statements in foreign currency

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

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

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 2008 and 2007 were as follows:

a) Other intangible assets

Computer software and development projects for which there are no doubts as to their technical and commercial success are measured at their acquisition cost (or, 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).

Gains (losses) on the disposal of property, plant and equipment items amounted to approximately EUR 182 thousand and EUR 22 thousand in 2008 and 2007, respectively, and were recognised under "Other Gains or Losses" in the accompanying consolidated income statements.

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

	Years of Estimated Useful Life
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" in the accompanying consolidated income statement and a credit to "Property, Plant and Equipment - Accumulated Depreciation" in the accompanying consolidated balance sheet.

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

d) Financial instruments

Trade and other receivables

Trade and other receivables are initially recognised at market value in the consolidated balance sheet and are subsequently measured at amortised cost using the effective interest 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 2008 and 2007, there were no material long-term accounts receivable not earning explicit interest.

The Group records allowance for debts in an irregular situation due to late payment, suspension of payments, insolvency or other reasons, after performing a case-by-case collectability analysis. In 2008 and 2007 the net change in impairment losses on accounts receivable was the net recognition of approximately EUR 781 thousand and the net reversal of approximately EUR 881 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. These receivables are measured at their 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 uncollectibility. The effective interest rate is the discount rate that exactly matches the initial value 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 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 2008, the Group did not have any assets in this category.

(4) Available-for-sale financial assets, which are measured at fair value. This category includes financial assets acquired that are not held for trading purposes and are not classified as held-to-maturity investments or as financial assets at fair value through profit or loss. Substantially all these assets relate to equity investments. These investments are also presented in the consolidated balance sheet at their market 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 market 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.

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

Cash and cash equivalents

"Cash and Cash Equivalents" in the accompanying consolidated balance sheet includes cash, demand deposits and other short-term, highly liquid investments that are readily converted into cash and that are subject to an insignificant risk of changes in value.

Trade and other payables

Accounts payable are initially recognised at market 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. Finance charges are recognised in the consolidated income statement on an accrual basis using the effective interest method and they are aggregated to the carrying amount of the financial instrument to the extent that they are not settled in the 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, yens, Mexican pesos, pounds sterling and Brazilian real (see Note 17).

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

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

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

– In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items attributable to the type of risk being hedged are recognised directly in "Financial Profit (Loss)" in the accompanying consolidated income statement. The Group records as fair value hedges the hedges arranged for construction work commenced 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 instruments are recognised temporarily in equity under "Valuation Adjustments". This method is used by the Group to hedge work commenced in 2005 and in prior years 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 a foreign operation, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in equity under "Translation Differences". This hedge was used for the equity of CAF USA, Inc.

e) Inventory measurement bases

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

Work in progress and finished and semi-finished goods are presented net of costs already settled as described in Note 3-f and 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 revenue and profit on each contract by reference to the estimated stage of completion of the contract, calculated on the basis of the percentage of actual hours incurred in each contract to estimated total hours, which is in keeping with other methods for determining the percentage of completion on the basis of costs incurred compared with those budgeted. 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 "Settled Costs in Outstanding Contracts at Year End", which is recognised as a deduction from "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 - Unbilled Completed Contract Work" (see Note 12).

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

h) Foreign currency transactions and other commitments

The foreign currency asset and liability balances of consolidated foreign companies were translated to euros as explained in Note 2-f. The remaining non-monetary foreign currency asset and liability balances were translated at the exchange rate prevailing at 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 12 months are classified as current items and those due to be settled within more than 12 months as non-current items.

j) Government grants

The Group companies recognise government grants 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 to funds or in the process of being externalised at independent insurance companies (see Note 15). The contributions made in 2008 and 2007 for various groups of employees amounted to EUR 3,200 thousand and EUR 2,020 thousand, respectively, and were charged to "Personnel expenses" in the accompanying consolidated income statements. The Group did not have any amount payable in this connection at 31 December 2008 or 2007. Also, in accordance with the applicable collective labour agreement, the Parent contributes an additional 1.75% of the base salary of all its employees to an employee welfare entity.

Also, the Parent's directors, based on the conclusions to 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 1,120 thousand (31 December 2007: EUR 1,208 thousand), calculated by an independent valuer, were recognised under "Non-Current Liabilities - Other Non-Current Financial Liabilities" in the consolidated balance sheet at 31 December 2008. 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 2008 a total of EUR 609 thousand was paid in this connection (2007: EUR 12,048 thousand which included the externalisation agreement).

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 2008, the headings “Non-Current Liabilities - Other Non-Current Financial Liabilities” and “Trade and Other Payables - Other Payables” in the accompanying consolidated balance sheet included EUR 7,714 thousand and EUR 2,220 thousand, respectively, (2007: EUR 9,563 thousand and EUR 2,140 thousand) relating to the present value estimated by the Parent's directors of the future payments to be made to employees that were no longer providing services in December of 2008 to the Parent and with whom hand-over contracts had been entered into. This provision was recognised in 2006 and 2007, and was adjusted with a credit of EUR 2,555 thousand (2007: EUR 4,957 thousand) to “Personnel expenses” in the accompanying consolidated income statement for 2008 (see Notes 18 and 22).

m) Corporate Income tax

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, 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 IFRS, deferred tax assets and deferred tax liabilities are classified as non-current assets and liabilities.

Pursuant to current legislation, tax assets relating to unused tax credits and tax relief are recognised for accounting purposes provided that the conditions established under the tax legislation are expected to be met. At 31 December 2008, the Group had recognised EUR 12,603 thousand in this connection under “Deferred Tax Assets” (see Note 18) after the deduction of EUR 23,392 thousand in the income tax estimate for 2008 (see Note 18) (at 31 December 2007, EUR 12,254 thousand had been recognised in this connection after having deducted EUR 25,100 thousand in the income tax estimate for 2007 and after having recorded EUR 5,304 thousand and EUR 6,950 thousand with a credit to the income statement and to “Voluntary Reserves”) and

after having recorded EUR 12,603 thousand with a credit to "Income Tax" in the consolidated income statement. In view of the uncertainty inherent to the recoverability of assets of this nature, the Group's recognition policy is based on an assessment of its backlog.

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 properties 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

In the preparation of the consolidated financial statements, the Parent's directors drew 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, the amount and/or timing of which cannot be determined.

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 beyond 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 those 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.

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 2008 and 2007, the Group paid EUR 1,114 thousand and EUR 691 thousand and made provisions amounting to EUR 3,583 thousand and EUR 262 thousand mainly with a charge to "Personnel Expenses - Wages and Salaries" and "Procurements" (see Note 22) in the consolidated income statement. Also, due to changes in the scope of consolidation the provision increased by EUR 471 thousand.

"Short-Term Provisions" in the accompanying consolidated balance sheet includes the provisions recognised by the Group to cover mainly warranty and contractual support service costs and other activity-related expenses (see Note 20). "Other Operating Expenses" in the accompanying consolidated income statement for 2008 includes EUR 84,730 thousand (2007: EUR 37,188 thousand) relating to the difference between the

provisions required in this connection at 2008 year-end and the provisions recognised at 2007 year-end. The expenses incurred in 2008 and 2007 in connection with the provision of contract warranty services (approximately EUR 25,834 thousand and EUR 17,139 thousand, respectively) were recognised under "Procurements" and "Personnel Expenses" in the accompanying consolidated income statements for 2008 and 2007.

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 statements (see Note 21-c).

Also, Royal Decree 1370/2006 regulating the Spanish National CO_2 Emission Rights Plan for 2008-2012 was approved in 2006, subsequently amended by Royal Decree 1030/2007. In accordance with this legislation, the Group must hold CO_2 emission rights allocated to it on or after 1 January 2008. Under Royal Decree the allocation at zero cost of individual emission rights for each facility for 2008-2012 was approved. The Group was allocated emission rights for the emission of 154,635 tonnes of CO_2 in that period. If the emissions made exceed the volume of rights allocated, emission rights 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 rights equal to the emissions made during the year.

In 2008 the Group's emissions totalled 20,003 tonnes whereas it had been allocated rights for the emission of 30,873 tonnes. As a result, the Group did not recognise any liability at year end. In 2007 the former plan for 2005-2007 ended with emissions of approximately 3,000 tonnes in excess of the emission rights allocated. The Group acquired emission rights in the market to cover the excess emissions for EUR 3,000 thousand.

p) Recognition of revenue and expenses

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.

q) Consolidated cash flow statements

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

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

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

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

– Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group companies 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 2008 and 2007, the basic earnings per share and the diluted earnings per share coincided since there were no dilutive potential shares outstanding in those years.

s) Discontinued operations

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

No line of business line or business segment was discontinued in 2008 or 2007.

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 2008 proposed by its directors is as follows:

Distribution	Thousands of Euros
To voluntary reserves	72,702
Dividends	32,567
Total	**105,269**

5. Financial risk management policy

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

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

The Group's 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 and the euro). This risk arises on future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

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

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

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.

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

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.

The CAF Group manages liquidity risk by:

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

• Maintaining a strong short-term liquidity position

• Maintaining undrawn credit balances

d) Cash flow and fair value interest rate risk

The Group's interest rate risk arises on borrowings.

The CAF 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 2008 and 2007 are 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.

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 primary basis by business unit, distinguishing between the “railway” and the “rolling stock and components” operating activities.

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

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. The segment profit is presented before any adjustment for minority interests. Segment assets and liabilities are those directly related to its operating activities.

Primary segments

In accordance with the basis for primary segment reporting set forth in IFRSs, the CAF Group considered the two business units 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 primary segments are 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 primary 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

Segment information about the businesses is as follows:

	2008 (Thousands of Euros)			
Primary Segments (Business Segments)	**Railway**	**Rolling Stock and Components**	**General**	**Total**
REVENUE:				
External sales	932,979	71,972	-	1,004,951
Inter-segment sales	-	21,146	-	21,146
Inter-segment eliminations	(21,146)	-	-	(21,146)
Total sales	**911,833**	**93,118**	**-**	**1,004,951**
RESULT:				
Segment result	89,542	15,376	(3,120)	101,798
Share of net results of associates	-	-	4,352	4,352
Financial profit (loss)	-	-	(294)	(294)
Gains or losses on disposal of non-current assets	-	-	556	556
Profit before tax	**89,542**	**15,376**	**1,494**	**106,412**
Income tax	-	-	296	296
Net profit for the year	**89,542**	**15,376**	**1,790**	**106,708**
Profit attributable to minority interests	-	-	(967)	(967)
Profit attributable to the Parent	**89,542**	**15,376**	**823**	**105,741**
ASSETS:				
Other intangible assets	172,582	590	-	173,172
Property, plant and equipment	160,419	39,129	5,082	204,630
Inventories	42,445	36,430	-	78,875
Trade and other receivables	664,899	17,598	952	683,449
Other non-current assets	-	-	146,831	146,831
Other current assets	-	-	626,649	626,649
Total assets	**1,040,345**	**93,747**	**779,514**	**1,913,606**
LIABILITIES AND EQUITY:				
Profit	89,543	15,376	822	105,741
Trade payables	916,970	26,431	72,058	1,015,459
Operating provisions	198,258	1,200	-	199,458
Other non-current financial liabilities	65,937	-	-	65,937
Other current financial liabilities	29,173	-	-	29,173
Equity (excluding profit for the year)	-	-	271,588	271,588
Other non-current liabilities	160,349	-	25,169	185,518
Other current liabilities	16,564	-	24,168	40,732
Total liabilities and equity	**1,476,794**	**43,007**	**393,805**	**1,913,606**

The assets and liabilities recognised in relation to administrative concessions are allocated to the Railway segment. At 31 December 2008, the assets and liabilities recognised in this connection amounted to approximately EUR 239 million (see Notes 7 and 16) and EUR 215 million (see Note 16), respectively (31 December 2007: EUR 285 million and EUR 199 million, respectively).

	2007 (Thousands of Euros)			
Primary Segments (Business Segments)	**Railway**	**Rolling Stock and Components**	**General**	**Total**
REVENUE:				
External sales	824,622	49,852	-	874,474
Inter-segment sales	-	24,579	-	24,579
Inter-segment eliminations	(24,579)	-	-	(24,579)
Total sales	**800,043**	**74,431**	**-**	**874,474**
RESULT:				
Segment result	84,190	2,907	(1,042)	86,055
Share of net results of associates	-	-	387	387
Financial profit (loss)	-	-	11,521	11,521
Gains or losses on disposal of non-current assets	-	-	28	28
Profit before tax	**84,190**	**2,907**	**10,894**	**97,991**
Income tax	-	-	(9,690)	(9,690)
Net profit for the year	**84,190**	**2,907**	**1,204**	**88,301**
Profit attributable to minority interests	-	-	(675)	(675)
Profit attributable to the Parent	**84,190**	**2,907**	**529**	**87,626**
ASSETS:				
Other intangible assets	197,325	231	-	197,556
Property, plant and equipment	136,703	27,390	7,830	171,923
Inventories	(11,877)	30,807	-	18,930
Trade and other receivables	318,679	12,243	3,450	334,372
Other non-current assets	-	-	72,344	72,344
Other current assets	-	-	502,121	502,121
Total assets	**640,830**	**70,671**	**585,745**	**1,297,246**
LIABILITIES AND EQUITY:				
Profit	84,190	2,907	529	87,626
Trade payables	467,090	15,641	9,782	492,513
Operating provisions	113,991	1,004	-	114,995
Other non-current financial liabilities	89,289	2,999	122	92,410
Other current financial liabilities	19,290	-	-	19,290
Equity (excluding profit for the year)	-	-	216,860	216,860
Other non-current liabilities	161,232	-	21,465	182,697
Other current liabilities	26,109	-	64,746	90,855
Total liabilities and equity	**961,191**	**22,551**	**313,504**	**1,297,246**

Assets and liabilities for general use and the results generated by them 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.

Secondary segments

Secondary segmentation is structured by geographical location:

- Spain
- Abroad

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

a) The breakdown of sales by geographical segment at 31 December 2008 and 2007 is as follows (thousands of euros):

Geographical Area	2008	%	2007	%
Spain	593,724	59,08	562,987	64,38
Abroad (*)	411,227	40,92	311,487	35,62
Total	**1,004,951**	**100,00**	**874,474**	**100,00**

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

b) The distribution of net investments in property, plant and equipment by geographical segment at 31 December 2008 and 2007 is as follows (in thousands of euros):

Geographical Area	2008	2007
Spain	198,519	167,548
Abroad	6,111	4,375
Total	**204,630**	**171,923**

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

7. Other intangible assets

The changes in the years ended 31 December 2008 and 2007 in other intangible asset accounts and in the related accumulated amortisation were as follows:

	Thousands of Euros				
	Administrative Concessions	**Development Expenditure**	**Computer Software**	**Goodwill**	**Total**
Balance at 31/12/06					
Cost	97,126	18,751	9,566	-	125,443
Accumulated amortisation	-	(15,227)	(8,927)	-	(24,154)
Net	**97,126**	**3,524**	**639**	**-**	**101,289**
Cost					
Inclusions in the scope of consolidation (Note 2-f) (*)	-	-	-	48	48
Additions (*)	97,758	804	650	-	99,212
Transfers to inventories	-	(1,390)	-	-	(1,390)
Disposals or reductions (*)	-	-	(168)	-	(168)
Cost balance at 31/12/07	**194,884**	**18,165**	**10,047**	**48**	**223,144**
Inclusions in the scope of consolidation (Note 2-f)	-	-	80	15	95
Additions	21,768	5,994	686	5,384	33,832
Transfers	-	-	(103)	-	(103)
Disposals or reductions	-	-	(445)	-	(445)
Translation differences	(52,466)	-	(5)	-	(52,471)
Cost balance at 31/12/08	**164,186**	**24,159**	**10,260**	**5,447**	**204,052**
Accumulated amortisation					
Inclusions in the scope of consolidation (Note 2-f) (*)	-	-	-	-	-
Additions or charge for the year (*)	-	(1,274)	(838)	-	(2,112)
Transfers to inventories	-	509	-	-	509
Disposals or reductions (*)	-	-	169	-	169
Accumulated amortisation at 31/12/07	**-**	**(15,992)**	**(9,596)**	**-**	**(25,588)**
Translation differences	1,667	-	23	-	1,690
Inclusions in the scope of consolidation (Note 2-f)	-	-	(55)	-	(55)
Additions or charge for the year	(5,876)	(1,372)	(125)	-	(7,373)
Transfers	-	-	1	-	1
Disposals or reductions	-	-	445	-	445
Accumulated amortisation at 31/12/08	**(4,209)**	**(17,364)**	**(9,307)**	**-**	**(30,880)**
Net balance at 31/12/07	**194,884**	**2,173**	**451**	**48**	**197,556**
Net balance at 31/12/08	**159,977**	**6,795**	**953**	**5,447**	**173,172**

(*) Including the exchange rate effect.

As discussed in Note 3-a, in 2007 the Group transferred EUR 881 thousand of capitalised development expenditure relating to a project to a contract obtained that incorporates the technology developed (Note 11).

The detail of the goodwill of these companies is as follows (in thousands of euros):

	Thousands of Euros	
	31.12.08	**31.12.07**
CFD Bagneres, S.A.	5,296	-
Lets Ingenieros, S.L.	48	48
Other	103	-
Total	**5,447**	**48**

The period additions to "Administrative Concessions" relate to the cost incurred in relation to the assets required to operate the concession in Mexico amounting to EUR 39,832 thousand (2007: EUR 137,454 thousand), net of the grants received amounting to EUR 18,064 thousand (2007: EUR 39,696 thousand). The Group began to operate the concession in the second quarter of 2008.

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

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

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

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

- The concession will have a term of 30 years from the date on which the Title to the Concession is signed, after which the assets of the concession operator 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.

- The concession operator will be entitled to be granted obligatory rights of way to provide the transport service on the Cuautitlán-Buenavista and Cuautitlán-Huehuetoca sections of the General North-eastern Railway Link.

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

The Group reached an agreement with the concession grantor whereby the Group will receive an indemnity of EUR 26 million in consideration of delays outside its control. This indemnity was recognised under "Other Operating Income" in the consolidated income statement and with a charge to "Trade and Other Receivables- Other Accounts Receivable" in the consolidated balance sheet at 31 December 2008.

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.

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 2008 and 2007 in 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 31/12/06						
Cost	147,496	144,790	10,884	15,670	2,589	321,429
Accumulated depreciation	(49,546)	(97,273)	(7,267)	(11,734)	-	(165,820)
Net	**97,950**	**47,517**	**3,617**	**3,936**	**2,589**	**155,609**
Cost or market value						
Inclusions in the scope of consolidation (Note 2-f) (*)	290	-	13	5	-	308
Additions (*)	6,442	19,598	1,068	1,433	2,781	31,322
Transfers (*)	4,013	(1,088)	79	60	(4,034)	(970)
Disposals or reductions (*)	(466)	(257)	(2,424)	(207)	(5)	(3,359)
Balance at 31/12/07	**157,775**	**163,043**	**9,620**	**16,961**	**1,331**	**348,730**
Inclusions in the scope of consolidation (Note 2-f) (*)	-	2,481	49	13	-	2,543
Additions	16,006	24,077	1,628	3,258	7,386	52,355
Transfers	5,549	646	71	2	(6,011)	257
Disposals or Reductions	-	(3,601)	(25)	(103)	-	(3,729)
Translation differences	(745)	77	(110)	(97)	(6)	(881)
Balance at 31/12/08	**178,585**	**186,723**	**11,233**	**20,034**	**2,700**	**399,275**
Accumulated depreciation						
Inclusion in the scope of consolidation (*)	(10)	-	-	-	-	(10)
Additions or charge for the year (*)	(3,550)	(8,763)	(733)	(1,459)	-	(14,505)
Transfers (*)	(49)	912	(19)	21	-	865
Disposals or reductions (*)	-	418	2,083	162	-	2,663
Accumulated depreciation at 31/12/07	**(53,155)**	**(104,706)**	**(5,936)**	**(13,010)**	**-**	**(176,807)**
Inclusions in the scope of consolidation (Note 2-f)	-	(863)	(11)	(13)	-	(887)
Additions or charge for the year	(3,883)	(10,370)	(815)	(1,349)	-	(16,417)
Transfers	(80)	(77)	(22)	(26)	-	(205)
Disposals or Reductions	-	3,291	43	80	-	3,414
Translation differences	(40)	(57)	21	61	-	(15)
Accumulated depreciation at 31/12/08	**(57,158)**	**(112,782)**	**(6,720)**	**(14,257)**	**-**	**(190,917)**
Net balance at 31/12/07	**104,620**	**58,337**	**3,684**	**3,951**	**1,331**	**171,923**
Net balance at 31/12/08 (**)	**121,427**	**73,941**	**4,513**	**5,777**	**2,700**	**208,358**

(*) Including the exchange rate effect.

(**) Before taking impairment losses into account.

In 2008 and 2007 the Group invested in its plants in order to increase and improve its production capacity.

In 2007, the Group conducted an in-depth study of its items of property, plant and equipment, and derecognised items that were fully depreciated and out of use with a total gross cost of EUR 2,657 thousand.

The revaluations of property, plant and equipment made pursuant to Guipúzcoa Regulation 11/1996 and Guipúzcoa Decree 13/1991 increased the depreciation charge for 2008 and prior years by approximately EUR 91 thousand and EUR 4,378 thousand respectively (2007: EUR 275 thousand and EUR 4,103 thousand, respectively).

At 31 December 2008 and 2007, the Group had firm capital investment commitments amounting to approximately EUR 17,966 thousand and EUR 10,185 thousand.

The consolidated companies take out insurance policies to adequately cover their property, plant and equipment. At 31 December 2008 and 2007, the insurance policies taken out covered the carrying amount of the property, plant and equipment at those dates.

At 31 December 2008 and 2007, the gross value of fully depreciated assets in use amounted to approximately EUR 129,771 thousand and EUR 123,776 thousand, respectively.

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 2008, the net un-depreciated amount of the grants received totalled EUR 6,194 thousand (31 December 2007: EUR 4,979 thousand). EUR 1,215 thousand were allocated to income in this connection in 2008 (2007: EUR 1,496 thousand), and this amount was recognised under "Depreciation and Amortisation Charge" in the accompanying consolidated income statement.

Impairment losses

At 31 December 2008, the Group's directors considered that there were indications that several of the Group's assets abroad might have become impaired and, accordingly, recorded a write-down of EUR 3,728 thousand for the purpose of measuring these items of property, plant and equipment at their recoverable amount. At 31 December 2007, there were no indications of asset impairment.

9. Investments accounted for using the equity method and non-current financial assets

The changes in the years ended 31 December 2008 and 2007 in "Investments Accounted for Using the Equity Method" and "Non-Current Financial Assets" were as follows:

	Thousands of Euros								
	Investments in Associates	Equity Instruments		Other Financial Assets		Derivative Financial Instruments (Note 17)	Loan and Receivables		Total
	Cost	Amortised Cost	Impairment Losses	Amortised Cost	Impairment Losses	Market Value	Amortised Cost	Impairment Losses	
Balance at 31/12/06	**835**	**14,842**	**(721)**	**7,598**	**(7,220)**	**-**	**15,611**	**(2,252)**	**28,693**
Changes in the scope of consolidation (Note 2-f) (*)	1,050	-	-	-	-	-	-	-	1,050
Additions or charge for the year (*)	179	3,110	-	718	-	368	7,683	-	12,058
Disposals or reductions (*)	-	-	-	-	-	-	(9,134)	45	(9,089)
Transfers and write-offs	-	-	-	(6,732)	7,220	-	-	(5,265)	(4,777)
Balance at 31/12/07	**2,064**	**17,952**	**(721)**	**1,584**	**-**	**368**	**14,160**	**(7,472)**	**27,935**
Changes in the scope of consolidation (Note 2-f) (*)	12,235	20	-	8	-	-	68	-	12,331
Additions or charge for the year (*)	(294)	3,504	-	134	-	9,196	51,609	(220)	63,929
Disposals or reductions (*)	(537)	-	-	(177)	-	-	(524)	-	(1,238)
Transfers and write-offs	-	-	721	-	-	(368)	(5,372)	(23,689)	(28,708)
Balance at 31/12/08	**13,468**	**21,476**	**-**	**1,549**	**-**	**9,196**	**59,941**	**(31,381)**	**74,249**

(*) Including the exchange rate effect.

A detail of the Group's financial assets at 31 December 2008 and 2007, by nature and category, is as follows:

	Thousands of Euros				
	31.12.08				
Financial Assets: Nature/Category	**Available for-Sale Financial Assets**	**Loans and Receivables**	**Held-to-Maturity Investments**	**Hedges**	**Total**
Equity instruments	21,476	-	-	-	21,476
Financial derivatives	-	-	-	9,196	9,196
Other financial assets	152	28,561	1,396	-	30,109
Long-term/non current	**21,628**	**28,561**	**1,396**	**9,196**	**60,781**

Financial Assets: Nature/Category	Thousands of Euros				
	31.12.07				
	Available for-Sale Financial Assets	Loans and Receivables	Held-to-Maturity Investments	Hedges	Total
Equity instruments	17,952	-	-	-	17,952
Financial derivatives	-	-	-	368	368
Other financial assets	262	7,093	564	-	7,919
Long-term/non current	**18,214**	**7,093**	**564**	**368**	**26,239**

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

2008

	2010	2011	2012	2013 and Subsequent Years	Total
Held-to-maturity investments	-	346	346	704	1,396
Loans and receivables	4,251	4,024	5,725	14,561	28,561
Financial derivatives	7,541	1,655	-	-	9,196
Total	**11,792**	**6,025**	**6,071**	**15,265**	**39,153**

2007

	2009	2010	2011	2012 and Subsequent Years	Total
Financial derivatives	368	-	-	-	368
Held-to-maturity investments	-	-	-	564	564
Loans and receivables	1,532	1,065	1,040	3,456	7,093
Total	**1,900**	**1,065**	**1,040**	**4,020**	**8,025**

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	Company Object and Business Activity	Ownership Interest Direct	Ownership Interest Indirect	Investments in Associates	Basic Financial Data (1) Share Capital	Basic Financial Data (1) Reserves and Retained Earnings	Basic Financial Data (1) 2008 Profit	Revenue	Auditor
Compañía de Vagones del Sur, S.A.	Jaén (Spain)	Manufacture of freight wagons.	-	35% **(2)**	1,286	3,703	(30)	3	-	-
Ditecsa Jaén, S.L.	Jaén (Spain)	Assembly of mechanical parts and engines.	-	100% **(2)**	1	3	(3)	(70)	2,120	-
Asirys Vision Technologies, S.A.	Guipúzcoa (Spain)	Study and manufacture of automated production systems.	-	26% **(3)**	60	209	(390)	(146)	398	S.M. Auditores
Plan Metro, S.A.	Guipúzcoa (Spain)	Lessor of railway equipment.	-	40% **(4)**	11,255	28,440	- **(6)**	(303)	-	Deloitte
Transitia SPE, S.L.	Bilbao (Spain)	Railway material repair and maintenance.	-	33% **(5)**	866	3,006	-	(407)	-	-

(1) After adjustments and unification for consolidation purposes (in thousands of euros).
(2) Through CAF Santana, S.A. investee also 67% owned.
(3) Through CAF I+D, S.L.
(4) Through Inversiones en Concesiones Ferroviarias, S.A.
(5) Through Bizkaia Ferroviaria, S.L.
(6) Disregarding the derivative valuation adjustments.

	Thousands of Euros 2008	Thousands of Euros 2007
Beginning balance	**2,064**	**835**
Profits of companies	(294)	412
Dividends	-	(233)
Changes in the scope of consolidation	11,698	1,050
Ending balance	**13,468**	**2,064**

In 2008 the Company acquired 40% of the share capital of Plan Metro, S.L. and 33% of the share capital of Transitia, Sociedad de Promoción de Empresas, S.L., for approximately EUR 11,376 thousand and EUR 1,002 thousand, respectively. It also sold 24.5% of the share capital of Sab Ibérica, S.A. for EUR 423 thousand.

b) Non-current investment securities

Company	% of Ownership	Investment Cost (Thousands of Euros)
Alquiler de Trenes A.I.E.	5	1,202
Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A.	7.6	11,911
Dano-Rail, S.Coop.	20	338
Ferromovil 3000, S.L.	10	3,181
Alquiler de Metros A.I.E.	5	66
Plan Azul 07, S.L.	5.2	1,381
Arrendadora de Equipamientos Ferroviarios, S.A.	15	1,908
Iniciativa FIK, AIE	6.25	1,301
FIK Advanlife, S.L.	6	1

At 31 December 2008 and 2007, these assets had been pledged to secure a financing agreement entered into by Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A. and a bank on 16 February 2004.

In 2008 and 2007, 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 2,043 thousand and EUR 1,449 thousand, which it paid in proportion to its ownership interest of 7.6%.

In 2008, a capital increase of EUR 720 thousand was performed at Arrendadora de Equipamientos Ferroviarios, S.A., which was subscribed by its shareholders in proportion to their existing ownership interests (15%). This company engages in the operating lease to a third party of vehicles manufactured by the Group.

In 2008 the Group also subscribed shares representing 6.25% and 6% of the share capital of Iniciativa FIK, AIE and FIK Advanlife S.L., respectively, the company object thereof being the research, development and use of scientific and technological knowledge in the field of ageing and disability healthcare technology. The par value of the shares amounted to EUR 3,125,000 and EUR 313, respectively. The Group has outstanding payment obligations for these shares amounting to EUR 2,094 thousand, payable in six-monthly payments of EUR 156 thousand each.

In addition, in 2007, through the subsidiary Inversiones en Concesiones Ferroviarias, S.A., the Group acquired an ownership interest of 5.2% in a new company called Plan Azul 07, S.A. The contribution plus share premium amounted to EUR 1,381 thousand, which had been paid in full at 31 December 2007.

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

c) Other financial assets

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 Group does not revalue these amounts since it considers that the effect of adjusting this amount is scantly material.

d) Derivative financial instruments

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

e) Loans and receivables

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

At the end of 2007 the Parent's directors resolved to set up a new plan with similar terms and conditions to those of the previous plans and again undertook not to unilaterally terminate it in the next seven years. This new plan is made up of 171,747 rights. The cost for the Parent, after discounting the contribution of the employees and that of Cartera Social through payment of the waiver rights, amounts to EUR 26,841 thousand, which was recorded with a charge and a credit to “Other Gains and Losses” and “Non-Current Liabilities” in the accompanying consolidated income statement and consolidated balance sheet at 31 December 2007, respectively. On 4 January 2008, Cartera Social, S.A. acquired 171,747 shares of the Parent, representing 5.01% of its share capital, which cover the aforementioned rights, for EUR 50,665 thousand.

The Group recorded EUR 54,714 thousand (2007: EUR 8,510 thousand) under this non-current heading of "Loans and Other Receivables", relating to an asset instrumented in certain rights making up a CAF share ownership scheme. Additionally, these rights were acquired from Cartera Social, S.A. (see Note 14), a company in which CAF employees have equity interests and with respect to which eight employees or former employees of the Parent act as trustees, and whose company object is to promote permanent employees' ownership of CAF's share capital. Cartera Social, S.A. is the sole owner of these shares and is entitled to exercise all the related dividend and voting rights. Accordingly, CAF does not have any rights, obligations or risks with respect to the economic profit or loss that might arise at Cartera Social, S.A. The Group has agreed to sell and the employees have agreed to buy these rights in 84 similar monthly instalments. The aforementioned shares will be owned by Cartera Social, S.A. until the employee exercises his/her right, which cannot occur prior to termination of the employment relationship. During this period Cartera Social, S.A. will finance ownership of the shares essentially with the amount paid by CAF to purchase the aforementioned rights.

Since the Parent bought the aforementioned rights at a price that, net of the discount on the sale to its employees and taking into account the contribution of Cartera Social, is higher than the sale price thereof, this scheme will give rise to a loss that was recognised by the Group since, although CAT has the option to unilaterally rescind the commitment undertaken to Cartera Social, S.A. and to its employees, in which case CAF will be entitled to a proportional refund of the amount of the rights acquired by it but not sold to its employees, CAF's directors have undertaken not to unilaterally rescind this commitment in the next seven years.

As a result of this commitment, in order to reduce the cost of the rights acquired to their net recoverable amount at 31 December 2008 the Group recognised an impairment loss of EUR 33,280 thousand of which EUR 31,381 thousand related to impairment losses on non-current financial assets (EUR 6,620 thousand at 31 December 2007, of which EUR 5,266 thousand related to impairment losses on non-current financial assets and the remainder to current financial assets). At 31 December 2008, 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 accompanying consolidated balance sheet at that date. In 2008 rights, with a cost and impairment loss amounting to approximately EUR 3,332 thousand and EUR 401 thousand, respectively, were sold (2007: EUR 2,637 thousand and EUR 1,079 thousand, respectively).

Impairment of the share ownership scheme is measured at a discount rate of 4.2% and a contribution of Cartera Social based on a dividend per share similar to that distributed out of profit for 2008.

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					
	2008			2007		
Company	**Services Provided or Sales**	**Services Received or Purchases**	**Dividends Received**	**Services Provided or Sales**	**Servicios Received or Purchases**	**Dividendos Received**
Sab Ibérica, S.A. (*)	-	-	-	42	7,455	233
Ferromovil 3000, S.A.	107,760	-	-	-	-	-
Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A	13,108	-	-	4,039	-	-

(*) The Group disposed of this investment in 2008 and, accordingly, no detail is provided of the transactions in that year.

As a result of the transactions performed in 2008, those performed in previous years and the advances granted, the Group's main balances with investees that were not fully consolidated at 31 December 2008 and 2007 were as follows (see Note 2-f):

	Thousands of Euros			
	31.12.08		31.12.07	
Company	**Accounts Receivable**	**Accounts Payable**	**Accounts Receivable**	**Accounts Payable**
Sab Ibérica, S.A. (*)	-	-	14	635
CAF R+D Subgroup	-	-	-	176
Alquiler de Trenes, A.I.E.	-	-	-	-
Ferromovil 3000, S.A.	3,178	-	-	-
Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A.	13,108	-	-	-
Other	-	-	(45)	328
	16,286	**-**	**(31)**	**1,139**

(*) The Group disposed of this investment in 2008 and, accordingly, no detail is provided of the balances at 31 December 2008.

11. Inventories and construction contracts

The breakdown of inventories at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	31.12.08	**31.12.07**
Raw materials and other procurements (Note 21)	140,718	95,547
Work in progress and finished and semi-finished goods (Note 3-f)	862,316	620,016
Settled costs in outstanding contracts at year end	(944,573)	(724,888)
Advances to suppliers	20,414	28,254
	78,875	**18,929**

“Settled Costs in Outstanding Contracts at Year End” relates to the settlement of costs, including provisions, on the basis of the actual percentage of contract completion (see Notes 3-f and 12).

The Group deducts the grants received for the acquisition of “Work in Progress and Finished and Semi-Finished Goods” from the carrying amount of this item. The net amount of the grants received not yet allocated to income totalled EUR 782 thousand and EUR 3,776 thousand at 31 December 2008 (see Note 15) and 2007, respectively. EUR 5,193 thousand and EUR 2,216 thousand of grants related to income were charged to income in 2008 and 2007, respectively, and these amounts were recognised under “Change in Inventories of Finished Goods and Work in Progress” in the accompanying consolidated income statement.

Disclosures relating to the CAF Group's construction contracts, which account for 90.73% of the Group's revenue, are provided in Note 6 on segment reporting, within the Railway segment.

At 31 December 2008, the Group held firm raw materials purchase commitments amounting to approximately EUR 589,890 thousand (see Note 26) (31 December 2007: EUR 791,397 thousand).

The consolidated companies take out insurance policies to adequately insure their inventories. At 31 December 2008 and 2007, the insurance policies taken out covered the carrying amount of the inventories at those dates.

12. Trade and other receivables

The breakdown of “Trade and Other Receivables” at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	31.12.08	**31.12.07**
Trade receivables - in euros	529,422	288,221
Trade receivables - in foreign currency (Note 3-h)	118,188	46,424
Impairment losses (Note 3-d)	(1,054)	(273)
	646,556	**334,372**

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 60%; 2007: 29%) have been billed to customers. The remainder relates to “Unbilled Completed Contract Work”. The main balances arose in the euro zone. At 31 December 2008, the main balances were with RENFE, Metro Sevilla and Societe des Transports de Brussels amounting to EUR 200,815 thousand, EUR 13,108 thousand and EUR 15,460 thousand, respectively. The foreign currency receivables included mainly accounts receivable for the work performed for the Algiers, Delhi and Santiago de Chile undergrounds, for the Edinburgh tram network and for the Algerian railways, for equivalent euro values of EUR 10,854 thousand, EUR 7,055 thousand, EUR 13,791 thousand, EUR 13,516 thousand and EUR 21,075 thousand, respectively. At 31 December 2007, the main balances were with RENFE, Il Comune Di Roma and Societe des Transports de Brussels amounting to EUR 99,354 thousand, EUR 6,313 thousand and EUR 11,383 thousand, respectively. The accounts receivable in foreign currency include mainly those relating to the work performed for Sacramento Regional Transit amounting to an equivalent of EUR 1,412 thousand.

The detail of balances past due at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	31.12.08	**31.12.07**
Past due > 90 days	13,861	14,115
Past due > 180 days	22,047	4,712
	35,908	**18,827**

On the basis of a case-by-case analysis of past due balances, the CAF Group considers that only EUR 1,054 thousand and EUR 273 thousand at 31 December 2008 and 2007, respectively, pose a collection risk and recognised the corresponding impairment losses.

13. Other current financial assets

The detail of "Other Current Financial Assets" at 31 December 2008 and 2007 is as follows:

	Thousands of Euros				
	31.12.08				
Financial Assets: Nature/Category	**Available-for-Sale Financial Assets**	**Loans and Receivables**	**Held-to Maturity Investments**	**Hedges**	**Total**
Spanish government debt securities	-	-	306,090	-	306,090
Financial derivatives	-	-	-	19,051	19,051
Other financial assets	938	3,331	180,129	-	184,398
Short term/current	**938**	**3,331**	**486,219**	**19,051**	**509,539**

	Thousands of Euros		
	31.12.07		
Financial Assets: Nature/Category	**Loans and Receivables**	**Held-to Maturity Investments**	**Total**
Spanish government debt securities	-	158,437	158,437
Other financial assets	1,230	295,168	296,398
Short term/current	**1,230**	**453,605**	**454,835**

The balance of "Other Deposits" includes the undrawn balance of the financing received in relation to the suburban railway project amounting to EUR 29,728 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 7).

14. Equity

a) Share capital of the Parent

At 31 December 2008 and 2007, the Parent's share capital consisted of 3,428,075 fully subscribed and paid shares of EUR 3.01 par value each, 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 2008 and 2007 were as follows:

	Percentage of Ownership (%) in 2008	Percentage of Ownership (%) in 2007
Cartera Social, S.A. (Notes 9 and 13) (*)	29.56	24.55
Gipuzkoa Donostia Kutxa	17.75	11.00
Bilbao Bizkaia Kutxa	-	10.82
Bestinver Gestión, S.A., S.G.I.I.C.	-	9.96
BNP Paribas Securities Services	5.47	5.47
Caja Vital	-	3.02
AVIVA International Holding, Ltda.	3.23	-

(*) The shareholders of this company are or have been employees of the Parent (see Note 9).
The Group had recognised at 31 December 2008 and 2007 a balance receivable of approximately EUR 6 thousand and EUR 5,408 thousand, respectively.

At the Annual General Meeting on 7 June 2007, the shareholders resolved to empower the Board of Directors of the Parent to increase share capital by up to EUR 5,129,253 within five years on one or several occasions, respecting the pre-emptive subscription right. This authorisation has not yet been used. Also at the Annual General Meeting on 7 June 2008, the shareholders empowered the Board of Directors to acquire treasury shares within 18 months from that date. At the date of preparation of these consolidated financial statements this acquisition had not been made.

b) Share premium

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

c) Revaluation reserve

The changes in this reserve in 2008 and 2007 were as follows:

	Thousands of Euros			
	31.12.06	Tax Rate Reduction	31.12.07	31.12.08
Revaluation of property, plant and equipment:				
Land	28,475	1,943	30,418	30,418
Revaluation reserve Law 9/1983	7,954	-	7,954	7,954
Revaluation reserve Guipúzcoa Decree 13/1991	11,379	-	11,379	11,379
Revaluation reserve Guipúzcoa Regulation 11/1996	8,701	-	8,701	8,701
	56,509	**1,943**	**58,452**	**58,452**

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

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

Revaluation reserve Guipúzcoa Regulation 11/1996

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

d) Legal reserve

Under the Consolidated Spanish 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) Reserves and results of fully consolidated companies and companies accounted for using the equity method

The detail, by company, of their contribution to "Reserves of Fully Consolidated Companies and Companies Accounted for Using the Equity Method" in the consolidated balance sheets at 31 December 2008 and 2007 and to consolidated profit in 2008 and 2007 is as follows (in thousands of euros):

	2008		2007	
	Reserves	**Results**	**Reserves**	**Results**
CAF, S.A.	184,233	92,939	129,760	81,505
CAF USA, Inc.	1,870	(482)	1,238	626
CAF México, S.A. de C.V.	2,462	1,537	2,644	(94)
CAF Brasil Ind. E C., S.A.	1,062	1,256	(330)	1,166
CAF Argentina, S.A.	(129)	289	281	279
CAF Irlanda, Ltda.	458	120	300	158
CAF Italia, S.R.L.	128	277	24	98
Trenes de Navarra, S.A.U.	(99)	445	(128)	18
Construcciones Ferroviarias de Madrid, S.L.	(485)	177	(649)	69
Construcciones Ferroviarias CAF-Santana, S.A.	(8)	73	(207)	142
CAF R+D Subgroup	4,358	2,992	1,529	2,754
Sermanfer Subgroup	1,225	275	785	425
Inversiones en Concesiones Ferroviarias, S.A.	1,905	2,140	30	1,366
Urbanización Parque Romareda, S.A.U.	69	(4)	65	4
Ferrocarriles Suburbanos, S.A. de C.V.	(1,431)	1,063	555	(1,372)
Constructora de Sistemas Ferroviarios, S.L.	66	-	59	7
Constructora Mex. del Fer. Sub., S.A. de C.V.	(77)	60	(262)	125
Nuevas Estrategias de Mantenimiento, S.L.	143	262	-	161
Lets Ingenieros, S.L.	-	10	-	(1)
Actren, S.A.	(74)	117	-	(50)
Centro Ensayos y Análisis Cetest, S.L.	(8)	56	-	(8)
Ibaia Energia, S.L.	7	18	-	7
Bizkaia Ferroviaria, S.L.	(43)	133	-	(33)
Sempere Componentes, S.L.	(29)	739	-	(29)
Compañía de Vagones del Sur, S.A.	(11)	1	-	-
Plan Metro, S.L.	-	(121)	-	-
Seinalia, S.L.	-	(6)	-	-
Transitia SPE, S.L.	-	(136)	-	-
CAF Chile, S.A.	-	(2)		
Predictove Ingenieros, S.L.	-	(2)	-	-
CFD Bagneres, S.A.	-	(275)	-	-
Desarrollo Software Miramon 4, S.L.	(11)	9	-	(7)
Trainelec, S.L..	255	1,781	-	-
Sab Ibérica, S.A.	-	-	376	310
Other	(188)	-	-	-
	195,648	**105,741**	**136,070**	**87,626**

f) Restricted reserves

The individual financial statements of the consolidated companies include reserves amounting to approximately EUR 44,117 thousand and EUR 41,406 thousand at 31 December 2008 and 2007, 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 profits may be distributed unless the balance of the unrestricted reserves of these companies is at least equal to the amount of the unamortised balance of these headings. Accordingly, at 2008 year-end restricted reserves amounted to EUR 6,795 thousand (31 December 2007: EUR 2,173 thousand).

g) Translation differences

The breakdown, by company, of "Translation Differences" at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	31.12.08	**31.12.07**
CAF México, S.A. de C.V.	(1,216)	(471)
CAF Brasil Ind. e C., S.A.	(369)	1,138
CAF Argentina, S.A.	171	(333)
CAF USA, Inc.	(73)	70
CAF Irlanda, Ltda.	(120)	(37)
Sefemex, S.A. de C.V.	(65)	(29)
Ferrocarriles Suburbanos S.A. de C.V.	(17,177)	(4,021)
Constructora Mex. del Fer. Sub, S.A. de C.V.	(837)	(231)
Corporación Trainemex, S.A. de C.V.	(11)	-
	(19,697)	**(3,914)**

h) Valuation adjustments

The amount recognised in this reserve relates to the valuation adjustments on derivatives designated as cash flow hedges (see Note 3-d).

i) Minority interests

The detail of the balance of "Equity - Minority Interests" on the liability side of the accompanying consolidated balance sheets and of the changes therein in 2008 and 2007 is as follows:

	Thousands of Euros
Balance at 31 December 2006	**2,670**
Profit attributable to minority interests	675
Changes in the scope of consolidation	253
Other	(24)
Balance at 31 December 2007	**3,574**
Profit attributable to minority interests	967
Changes in the scope of consolidation (Note 2-f)	11,726
Other	(92)
Balance at 31 December 2008	**15,208**

j) Management of capital

The Group's capital management is aimed at achieving a financial structure that optimises the cost of capital while ensuring a solid 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 2008 and 2007, most of the borrowings were directly assigned 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:

	Thousands of Euros	
	31.12.08	31.12.07
Net financial debt:		
Refundable advances	61,334	67,919
Bank borrowings - Non-current liabilities (Note 16)	160,349	161,232
Bank borrowings - Current liabilities (Note 16)	16,564	26,110
Current financial assets (Note 13)	(488,576)	(446,957)
Cash and cash equivalents	(116,714)	(24,212)
	(367,043)	**(215,908)**
Equity:		
Of the Parent	362,122	300,913
Minority interests	15,208	3,574
	377,330	**304,487**

15. Other non-current financial liabilities

A detail of the Group's financial liabilities at 31 December 2008 and 2007, by nature and category, is as follows:

	Thousands of Euros			
	31.12.08			
Financial Liabilities: Nature/Category	**Held-for-Trading Financial Liabilities**	**Other Financial Liabilities at Fair Value through Profit and Loss**	**Debits and Payables**	**Hedges**
Bank borrowings and other financial liabilities	-	-	160,349	-
Debt instruments and other held-for-trading liabilities	-	-	-	-
Derivatives	-	-	-	7,187
Other financial liabilities	-	-	58,750	-
Non-current liabilities / non-current financial liabilities	**-**	**-**	**219,099**	**7,187**
Bank borrowings and other financial liabilities	-	-	16,564	-
Debt instruments and other held-for-trading liabilities	-	-	-	-
Derivatives	-	-	-	11,534
Other financial liabilities	-	-	17,639	-
Current liabilities/current financial liabilities	**-**	**-**	**34,203**	**11,534**
Total	**-**	**-**	**253,302**	**18,721**

	Thousands of Euros			
	31.12.07			
Financial Liabilities: Nature/Category	**Held-for-Trading Financial Liabilities**	**Other Financial Liabilities at Fair Value through Profit and Loss**	**Debits and Payables**	**Hedges**
Bank borrowings and other financial liabilities	-	-	161,232	-
Debt instruments and other held-for-trading liabilities	-	-	-	-
Derivatives	-	-	-	-
Other financial liabilities	-	-	92,411	-
Non-current liabilities / non-current financial liabilities	**-**	**-**	**253,643**	**-**
Bank borrowings and other financial liabilities	-	-	26,110	-
Debt instruments and other held-for-trading liabilities	-	-	-	-
Derivatives	-	-	-	1,265
Other financial liabilities	-	-	19,321	-
Current liabilities/current financial liabilities	**-**	**-**	**45,431**	**1,265**
Total	**-**	**-**	**299,074**	**1,265**

Through research and development programmes the Group received certain grants to conduct research and development projects in 2008 and 2007. 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 2008 and 2007 in relation to the aforementioned programmes were as follows:

	Thousands of Euros
	Refundable Advances
Balance at 31/12/06	**58,246**
Additions	2,699
Transfers to short term (Notes 19 and 20)	(7,767)
Balance at 31/12/07	**53,178**
Additions	4,561
Transfers to short term (Notes 19 and 20)	(9,911)
Balance at 31/12/08	**47,828**

The detail of the accounts payable at short term is included in Notes 19 and 20.

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 recognised under "Trade and Other Receivables- Other Accounts Receivable" and "Trade and Other Payables - Other Payables" EUR 41 thousand and EUR 60 thousand, respectively (31 December 2007: EUR 361 thousand and EUR 2,173 thousand, respectively), in relation to the amounts receivable from and payable to third parties in connection with the joint projects.

At 31 December 2008, the maturity schedule was as follows:

	Thousands of Euros
2010	6,546
2011	6,899
2012	6,920
2013	6,920
2014 and subsequent years	20,543
	47,828

16. Bank borrowings and other financial liabilities

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

	Thousands of Euros			
	31.12.08		31.12.07	
	Non-Current	Current	Non-Current	Current
Bank loans and credit accounts	160,349	16,489	161,232	26,031
Unmatured accrued interest	-	75	-	79
Total	**160,349**	**16,564**	**161,232**	**26,110**

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., which remained outstanding at 31 December 2008 and 2007, 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 30 months from 24 July 2006, and the interest rate was set at the Equilibrium Interbank Interest Rate published by the Bank of México + 1.25%. Each amount drawn down must be repaid within 90 calendar days from the date of each drawdown. At 31 December 2008 and 2007, EUR 3,628 thousand and EUR 10,919 thousand, respectively (MXP 69,897 thousand and MXP 175,542 thousand, respectively), had been drawn down against this credit facility.

– Financing agreement for a maximum amount equal to EUR 177 million (MXP 3,414 million) in relation to the application of forward exchange rates, paying fixed financing interest established in the financing agreement. The financing will be repaid in 28 half-yearly payments from 28 June 2008. At 31 December 2008 and 2007, EUR 164,565 thousand and EUR 175,125 thousand, respectively (MXP 3,171 thousand and MXP 3,139 thousand, respectively), had been drawn down against this credit facility.

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 banks loans, the provision of guarantees, the fulfilment of tax payment obligations, the sale of non-current assets, the reimbursement of capital the fulfilment of certain financial conditions, including, among others, the ratio of total liabilities to share capital. At 31 December 2008 and 2007, 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 EUR 177 million was secured by a contingent debt servicing fund amounting to USD 124 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.

The repayment schedule envisaged in the financing agreement and for the VAT facilities is as follows (in thousands of euros):

	Thousands of Euros	
	31.12.08	**31.12.07**
2008	-	15.171
2009	12,658	15,171
2010	12,659	15,171
2011	12,659	15,171
2012	12,659	15,171
2013	12,659	15,171
Subsequent years	101,271	84,099
Total	**164,565**	**175,542**

In addition to this financing, at 31 December 2008, 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 147,853 thousand. No significant amounts had been drawn down at that date (31 December 2007: EUR 175,505 thousand).

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 2008 and 2007 is as follows:

	Maturity (in Currency)		
Sell at 31/12/08 (Fair value hedges)	**2009**	**2010**	**2011 and Subsequent Years**
Hedges:			
USD currency hedges	248,926,337	-	-
GBP currency hedges	15,381,840	24,983,637	5,434,784
YEN currency hedges	9,597,852,003	-	-
EUR currency hedges	7,815,168	-	-
MXP currency hedges	469,533,168	-	-
BRL currency hedges	89,567,173	-	-

	Maturity (in Currency)
Buy at 31/12/08 (Fair value hedges)	**2009**
Hedges:	
USD currency hedges	163,529,945
GBP currency hedges	298,490
YEN currency hedges	695,468,170
EUR currency hedges	25,765,260
Buy at 31/12/08 (cash flows hedges)	**2009**
Hedges:	
MXP currency hedges	30,598,400

	Maturity (in Currency)		
Sell at 31/12/07 (Fair value hedges)	**2008**	**2009**	**2010 and Subsequent Years**
Hedges:			
USD currency hedges	154,609,950	112,062,000	-
GBP currency hedges	26,994,834	22,963,594	10,834,105
YEN currency hedges	10,947,549,939	3,449,228,064	-
EUR currency hedges	29,329,681	-	-
CAD currency hedges	89,969	-	-
AUD currency hedges	92,349	-	-

	Maturity (in Currency)	
Buy at 31/12/07 (Fair value hedges)	**2008**	**2009**
Hedges:		
USD currency hedges	13,652,307	-
GBP currency hedges	669,382	-
YEN currency hedges	2,028,882,240	450,000,000
EUR currency hedges	30,138,673	-
CHF currency hedges	5,521	-

Buy at 31/12/07 (cash flows hedges)	Maturity (in Currency) 2008	2009
Hedges:		
USD currency hedges	40,940,765	76,861,784
EUR currency hedges	7,817,296	18,240,359

	Thousands of Euros			
	Fair Value		Cash Flows	
	31.12.08	31.12.07	31.12.08	31.12.07
Hedges:				
USD currency hedges	1,923	2,265	-	285
GBP currency hedges	6,204	145	-	-
YEN exchange rate hedges	3,891	(3,858)	-	-
EUR currency hedges	-	-	-	405
MXP currency hedges	(580)	-	(285)	-
BRL currency hedges	(1,406)	-	-	-
CHF currency hedges	(222)	(140)	-	-
AUD currency hedges	-	2	-	-
Measurement at year-end (*)	**9,810**	**(1,586)**	**(285)**	**690**

(*) Before considering the tax effect.

In terms of the allocation to profit and loss and the change in the value of fair value derivatives, EUR 6,229 thousand and EUR 4,107 thousand were allocated to profit and loss in 2008 and 2007, which is similar to the changes in value of the hedged items, since in 2007 and 2008 there was almost no ineffectiveness in the hedges. The impact on the consolidated income statement was residual.

The items hedged by the Group, in accordance with that disclosed 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 as highly probable transactions (in which case they are recognized as cash flow hedges).

18. Deferred taxes

At 31 December 2008, 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. In 2008 the Group was not subject to any tax audit or inspection.

The Parent files income tax returns with both the Spanish treasury and the Guipúzcoa and Vizcaya provincial treasuries on the basis of the volume of transactions carried out in each area. However, since it is subject to Guipúzcoa tax regulations, an income tax rate of 28% was applied in 2008.

Since 2007 the Parent has filed consolidated income tax returns pursuant to Guipúzcoa Regulation 7/1996, of 4 July, as part of tax group no. 03/07/G, of which Construcciones y Auxiliar de Ferrocarriles, S.A. is the Parent, the subsidiaries being as follows: Inversiones en Concesiones Ferroviarias, S.A., CAF I+D, S.L., Constructora de Sistemas Ferroviarios, S.L., Traintic, S.L., Ibaia Energía, S.L., Sempere Componentes, S.L., Bizkaia Ferroviaria, S.L., Trainelec, S.L., Agarregune, S.L., Seinalia, S.L., Predictove Ingenieros, S.L., Nuevas Estrategias de Mantenimiento, S.L. and Centro de Ensayos y Análisis Cetest, S.L.

The companies will file consolidated income tax returns indefinitely provided that they continue to meet the requirements or unless they expressly decide otherwise using the related business taxation status notification form.

The reconciliation of the Group's accounting profit for 2008 to the taxable profit for income tax purposes is as follows:

	Thousands of Euros
	2008
Accounting profit (before tax)	106,412
Permanent differences, net (Notes 3-d, 3-k, and 3-l)	(7,520)
Net increases and decreases arising on temporary differences (Notes 3-d, 3-k, 7, 9 and 20)	67,889
Tax consolidation adjustments (Note 7)	21,390
Taxable profit	**188,171**

The reconciliation of the Parent's accounting profit for 2007 to the taxable profit for income tax purposes is as follows:

	Thousands of Euros
	31.12.07
Accounting profit (before tax)	113,768
Permanent differences, net (Notes 3-d, 3-k, and 3-l)	(8,283)
Net increases and decreases arising on temporary differences and accelerated depreciation (Notes 3-d, 3-k, 7 and 20)	54,564
Tax consolidation adjustments	(558)
Taxable profit	**159,491**

The difference between the tax charge allocated to 2008 and the tax payable for that year, which is presented under "Deferred Tax Assets" and "Deferred Tax Liabilities" on the asset and liability sides, respectively, of the accompanying consolidated balance sheet, arose as a result of the following:

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

– Temporary differences relating to 28% of the allowance for the rights under the share ownership scheme and to provisions that were not tax deductible in the year in which they were recognised.

– Temporary differences relating to 28% of the amount by which the depreciation taken for tax purposes exceeds that taken for accounting purposes as a result of the tax benefits relating to unrestricted and accelerated depreciation provided for by Guipúzcoa Regulations 6/1988, 7/1996 and 11/1993.

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

	Thousands of Euros			
	31.12.07	**Additions**	**Disposals**	**31.12.08**
Deferred tax assets:				
Provisions temporarily not deductible	15,447	20,313	(1,330)	34,430
Share ownership scheme (Note 9)	9,336	-	(17)	9,319
Start-up costs	280	-	(280)	-
Cash flow hedges (Note 17)	783	-	(783)	-
Elimination of profits on consolidation	8,612	7,863	(245)	16,230
	34,458	**28,176**	**(2,655)**	**59,979**
Deferred tax liabilities:				
Unrestricted and accelerated depreciation (Note 7)	1,803	2,073	(1,168)	2,708
Cash flow hedges (Note 17)	709	-	(630)	79
Revaluation of land (Note 14)	11,829	-	-	11,829
Tax credit for the establishment of companies abroad	5,373	-	(1,687)	3,686
Goodwill	-	445	-	445
Other- Tax payables	1,920	2,609	(1,920)	2,609
	21,634	**5,127**	**(5,405)**	**21,356**

	Thousands of Euros				
	31.12.06	**Additions**	**Disposals**	**Other(*)**	**31.12.07**
Deferred tax assets:					
Provisions temporarily not deductible	9,828	6,470	(851)	-	15,447
Share ownership scheme (Note 9)	2,123	7,515	(302)	-	9,336
Elimination of profits on consolidation	-	8,612	-	-	8,612
Start-up costs	497	-	(217)	-	280
Cash flow hedges (Note 17)	982	-	(199)	-	783
	13,430	**22,597**	**(1,569)**	**-**	**34,458**
Deferred tax liabilities:					
Unrestricted and accelerated depreciation (Note 7)	2,404	320	(921)	-	1,803
Cash flow hedges (Note 17)	1,098	-	(389)	-	709
Revaluation of land (Note 14)	13,773	-	-	(1,944)	11,829
Tax credit for the establishment of companies abroad	7,216	-	(1,843)	-	5,373
Other- Tax payables	-	1,920	-	-	1,920
	24,491	**2,240**	**(3,153)**	**(1,944)**	**21,634**

(*) With a charge to reserves.

In 2008 the Group recognised EUR 12,603 thousand under "Deferred Tax Assets" for tax assets (see Note 9).

Also, in calculating the income tax payable for 2008, the Group deducted tax credits amounting to EUR 25,732 thousand, of which EUR 12,254 thousand had been recognised under "Deferred Tax Assets" in the accompanying consolidated balance sheet at 31 December 2007. The difference between the income tax estimated and settled for 2007 gave rise to the final recognition of additional tax assets with a net reduction in the income tax expense of approximately EUR 6,600 thousand.

In addition to the content of Note 3-m, tax assets (amounting to approximately EUR 13,059 thousand) were earned by the Group that will be recognised to the extent that they can be deducted in the coming years based on the limits and deadlines provided for in current legislation.

In 2008 the Group took tax credits of EUR 11,358 thousand mainly in relation to the tax credits for investment in new items of property, plant and equipment (EUR 3,484 thousand) and the tax credits for R+D (EUR 5,876 thousand). Unused tax credits after projected income tax for 2008 amounted to EUR 25,771 thousand. 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 amounting to approximately EUR 13 million.

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.

The Group considered income of EUR 259 thousand generated in 2008 to be exempt in application of the tax credit for the reinvestment of extraordinary profit provided for in Article 22 of the Guipúzcoa Income Tax Regulation 7/1996, of 4 July. The assets in which the income was reinvested, amounting to EUR 259 thousand (EUR 1,508 thousand in the last four years) must be kept as part of the Group's assets, with the exception of justified losses, for five years from the date of reinvestment or for three years in the case of movable property, unless the useful life is less. If the assets in which the reinvestment is made are transferred prior to the date of expiry of the aforementioned term the portion of income that was not included in the taxable profit, must be included therein unless the amount obtained is subject to reinvestment in the terms established in the tax law.

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 which amends Guipúzcoa Regulation 7/1996, was published and came into force with effect for tax periods commencing on or after 1 January 2008, and which sets, among other measures, a standard tax rate of 28%. Guipúzcoa Regulation 8/2008 has been appealed against at the Basque Country High Court.

On 11 September 2008, the Court of Justice of the European Communities published a decision on the requests for a prejudicial decision filed by the Basque Country High Court in orders dated September 2006 As required by the decision of the Court of Justice of the European Communities, in December 2008 the Basque Country High Court dismissed various appeals against the Guipúzcoa Income Tax Regulation. However, an appeal has been filed against this decision at the Supreme Court.

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 2008 year-end the Group has 2004 and subsequent years open for review by the tax authorities for income tax and 2005 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 it is open for review, 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 significant effect on the accompanying consolidated financial statements.

In 2008 and 2007 no tax audit or inspection was conducted on the Group.

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

19. Receivable from and payable to public authorities

The detail of the tax receivables and tax payables at 31 December 2008 and 2007 is as follows:

	Thousands of Euros							
	31.12.08				31.12.07			
	Assets		Liabilities		Assets		Liabilities	
Concepto	**Non-Current**	**Current**	**Non-Current**	**Current**	**Non-Current**	**Current**	**Non-Current**	**Current**
Social security costs	-	-	-	5,055	-	44	-	4,052
Regular taxes								
VAT	-	9,715	-	27,369	-	13,828	-	17,859
Other	-	1,275	-	1,101	-	814	-	223
Personal income tax withholdings	-	-	-	4,099	-	37	-	4,880
Income tax (Note 3-m)	-	1,821	-	23,722	-	1,607	-	21,852
Grants receivable	-	1,249	-	-	-	1,942	-	-
Unused tax relief and tax credits (Notes 3-m and 9)	12,603	-	-	-	7,776	4,478	-	-
	12,603	**14,060**	**-**	**61,346**	**7,776**	**22,750**	**-**	**48,866**

20. Short-term provisions

The changes in "Short-Term Provisions" (see Note 3-ñ) in 2008 and 2007 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 31/12/06	**70,989**	**11,321**	**82,310**
Net charge for the year (Notes 3-ñ and 18)	37,188	(4,893)	32,295
Transfers	-	390	390
Balance at 31/12/07	**108,177**	**6,818**	**114,995**
Net charge for the year (Notes 3-ñ and 18)	87,314	(2,851)	84,463
Balance at 31/12/08	**195,491**	**3,967**	**199,458**

The provisions at 31 December 2008 relate basically to provisions for reliability (approximately EUR 73 million), for contractual liabilities (EUR 29 million) and for warranties (EUR 59 million).

21. Revenue and expense recognition

a) Procurements

	Thousands of Euros	
	2008	**2007**
Purchases (*)	481,927	307,498
Work performed by other companies	37,181	35,053
Change in inventories (Note 11)	(45,866)	(28,369)
	473,242	**314,182**

(*) 92% in euros, and the remainder mainly in US dollars (2007: 85%).

b) Other operating expenses

The fees for the audit of the individual and consolidated financial statements (including the six-monthly reviews) of Construcciones y Auxiliar de Ferrocarriles, S.A. and subsidiaries amounted to EUR 689 thousand, of which EUR 577 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 533 thousand, of which EUR 444 thousand relate to the principal auditor.

c) Information on the environment

The most significant investments made in systems, equipment and facilities designed for environmental protection and improvement and included under property, plant and equipment (see Note 8) amounted to EUR 697 thousand in 2008 and EUR 961 thousand in 2007.

In 2008 and 2007 the Group did not obtain any environmental grants.

At 31 December 2008, 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

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

On 21 March 2006, the CAF Group, as the leader of the consortium created with other companies in this connection, received the Provisional Resolution Proposal drawn up by the CDTI, awarding it grants totalling EUR 9,605 thousand (EUR 6,734 thousand relating to the CAF Group) for the development of new technology for 2006-2009. Each of the companies forming part of the consortium participates in the various phases of the project, together with the related subcontracting to technology centres. The CAF Group expected to incur total costs over the programme period of EUR 14,451 thousand, although the costs incurred at 31 December 2008 amounted to EUR 16,675 thousand (31 December 2007: EUR 10,235 thousand). At 31 December 2008 and 2007, the grants received in relation to the CENIT programme totalled EUR 5,120 thousand and EUR 3,276 thousand, respectively.

On 21 November 2007 the Group, as the leader of the consortium created with other companies in this connection, received the Provisional Resolution Proposal drawn up by the CDTI, awarding it grants totalling EUR 10,882

thousand (EUR 5,200 thousand relating to the CAF Group) for the development of new technology for 2008-2011 (Ecotrans) within the framework of the CENIT programme. Each of the companies forming part of the consortium participates in the various phases of the project, together with the related subcontracting to technology centres. The CAF Group expects to incur total costs over the programme period of EUR 11,389 thousand, and the costs to be justified at 31 December 2008 amount to EUR 2,484 thousand. At 31 December 2008, the grant received in relation to the Ecotrans project totalled EUR 1,134 thousand, and the entire amount was taken to income in 2008.

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

22. Average headcount and personnel expenses

The equivalent average headcount in 2008 and 2007 was as follows:

	Average Number of Employees	
Professional Category	**2008**	**2007**
Employees	1,600	1,324
Manual workers	3,158	2,997
Total (*)	**4,758**	**4,321**

(*) At 31 December 2008 and 2007, there were 5,108 permanent employees and 4,415 temporary employees.

The breakdown, by gender, of the average headcount in 2008 and 2007 is as follows:

	2008		2007	
Professional Category	**Men**	**Women**	**Men**	**Women**
Employees	1,273	327	1,053	271
Manual workers	3,109	49	2,963	34
Total	**4,382**	**376**	**4,016**	**305**

Also, all the directors are men.

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

	2008	**2007**
Wages and salaries (Notes 3-k, 3-l and 3-ñ)	170,504	148,365
Social security costs	50,221	44,002
Other costs (Note 3-k)	8,741	7,763
	229,466	**200,130**

23. Information on the Board of Directors

a) Remuneration and other benefits of directors

In 2008 and 2007 the Parent recognised approximately EUR 907 thousand and EUR 799 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 2008 and 2007, neither the Parent nor the subsidiaries had granted any advances, guarantees or loans to current or former directors and, except as indicated in 3-k, the Group did not have any pension or life insurance obligations to them.

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

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

– Caja de Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián (Gipuzkoa Donostia Kutxa) disclosed that it has a 95% interest in Alquiler de Trenes, AIE, an economic interest grouping set up with CAF (see Note 9) and confirmed that it does not hold any other equity investments in other entities with identical, similar or complementary activities.

The other members of the Board of Directors declared that they do not hold any investments in companies engaging in identical, similar or complementary activities, except for those held by certain directors in discharging their duties on behalf of the Parent (see Note 9), which are detailed below:

Company	Line of Business	Positions or Functions at the Company Concerned	Name
CAF I+D, S.L.U.	Research and development	Sole director	José María Baztarrica
Construcciones Ferroviarias CAF-Santana, S.A.	Manufacture of railway equipment	Chairman	José María Baztarrica
Construcciones Ferroviarias CAF-Santana, S.A.	Manufacture of railway equipment	CEO	Alejandro Legarda
Construcciones Ferroviarias de Madrid, S.L.U.	Manufacture of railway equipment	Sole director	José María Baztarrica
Ferrocarriles Suburbanos, S.A. de C.V.	Provision of all manner of land transport services	Chairman	Alejandro Legarda
Constructora de Sistemas Ferroviarios, S.L.	Design and supply of railway line operating equipment	Chairman	Alejandro Legarda
Urbanizaciones Parque Romareda, S.A.U.	Ownership of shares	Sole director	Alejandro Legarda
Traintic, S.L.	Manufacture of electronic products	Sole director	Andrés Arizcorreta
CAF USA, Inc.	Manufacture of railway equipment	Chairman	José María Baztarrica

Company	Line of Business	Positions or Functions at the Company Concerned	Name
CAF México, S.A. de C.V.	Manufacture and maintenance of equipment	Chairman	José María Baztarrica
CAF Argentina, S.A.	Manufacture of railway equipment	Chairman	José María Baztarrica
CAF Rail UK, Ltda.	Manufacture of railway equipment	Sole director	José María Baztarrica
CAF Italia, S.R.L.	Manufacture of railway equipment	Sole director	José María Baztarrica
Constructora Mex. del Ferrocarril Suburbano, S.A. de C.V.	Design and supply of railway line operating equipment	Chairman	Alejandro Legarda
Trenes de Navarra, S.A.U.	Manufacture of railway equipment	Sole director	Andrés Arizcorreta
CAF Chile, S.A.	Manufacture of railway equipment	Chairman	Andrés Arizcorreta
Desarrollo Software Miramon 4, S.L.	Software development	Sole director	Andrés Arizcorreta
Sempere Componentes, S.L.	Marketing of components	Sole director	Andrés Arizcorreta
Bizkaia Ferroviaria, S.L.	Engineering services	Sole director	Andrés Arizcorreta
Centro de Ensayos y Análisis Cetest, S.L.	Trials and accreditation	Sole director	Andrés Arizcorreta
Trainelec, S.L.	Electronic power equipment	Sole director	Andrés Arizcorreta
Nuevas Estrategias de Mantenimiento, S.L.	Technology solutions	Sole director	Andrés Arizcorreta
Ibaia Energía, S.L.	Power generation	Sole director	Andrés Arizcorreta
Compañía de Vagones del Sur, S.A.	Manufacture of freight wagons	Director	Alejandro Legarda
Agarregune, S.L.	Construction of buildings, fostering company initiative in the mobility field	Sole director	Andrés Arizcorreta
CAF Argelia, E.U.R.L.	Manufacture and maintenance of railway equipment	Sole director	Andrés Arizcorreta
CAF Francia, S.A.S.	Manufacture and maintenance of railway equipment	Sole director	Andrés Arizcorreta
CAF Turquía, L.S.	Manufacture and maintenance of railway equipment	Sole director	Andrés Arizcorreta
Constructions Ferroviaires de Bagneres, S.A.	Manufacture and maintenance of railway equipment	Director	Andrés Arizcorreta

Company	Line of Business	Positions or Functions at the Company Concerned	Name
Gestión Elaboración de Manuales Industriales Ingenieria y Servicios Complementarios, S.L.	Design of industrial equipment	Sole director	Andrés Arizcorreta
Seinalia, S.L.	Manufacture and retailing of signalling and safety equipment	Sole director	Andrés Arizcorreta
Constructions Ferroviaires de Bagneres, S.A.	Manufacture and maintenance of railway equipment	Director	Alejandro Legarda
Ditecsa Jaén, S.L.	Manufacture and assembly of components for the automotive industry	Director	Alejandro Legarda
Plan Metro, S.A.	Lease of mobile railway material	Director	Alejandro Legarda

24. Remuneration of senior executives

Since the senior executives of the Parent are also members of its Board of Directors, their personnel expenses (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 2008 and 2007 there were no other transactions with senior executives outside the ordinary course of business.

25. Guarantees and other contingent assets and liabilities

At 31 December 2008, the guarantees provided to the Group by banks and insurance companies for third parties amounted to EUR 1,591,677 thousand (31 December 2007: EUR 1,344,457 thousand) relating basically to technical guarantees in compliance with the orders received. Of this amount, EUR 119,728 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. Also, of this total, EUR 19,100 thousand are securing the funds paid in advance by FINFRA to the subsidiary Ferrocarriles Suburbanos, S.A. de C.V. (see Note 7) and EUR 24,653 thousand are securing the contribution of venture capital to this subsidiary.

In 2008, the CAF Group identified no material contingent assets or liabilities.

26. Events after the balance sheet date

At 31 December 2008, the firm backlog, net of progress billings, amounted to approximately EUR 4,137,431 thousand (see Note 11). At 31 January 2009, this amount was EUR 4,208,712 thousand.

27. Explanation added for translation to English

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

Approval by the Board of Directors

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

Certificate issued by the Secretary attesting that, following the authorisation for issue of the consolidated financial statements and consolidated directors' report of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. and Subsidiaries composing the CAF Group (Consolidated) for the year ended 31 December 2008 by the Board of Directors at its meeting on 26 February 2009 (the consolidated financial statements for the year ended 31 December 2007 had been duly formalised in the past), the directors have signed this document, consisting of 139 sheets numbered sequentially from 2459 to 2597, 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 Sebastian, 26 February 2009

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

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

Ordinary Shareholders' Meeting to be held at the Company's registered office in Beasain, Guipúzcoa, at 12.00 am on June 6 2009, at first call, and, if appropriate, at the same time and place the following day.

First. Examination and approval, if appropriate, of the 2008 financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A., and of the 2008 consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries, together with the management report.

Second. Approval of the proposal for the distribution of 2008 income, with a distribution of dividends for a gross amount of €9.5 per share.

Third. Authorize the Company' Board of Directors for the derivative acquisition of treasury stock under the terms required by law, rendering null and void the authorization previously granted under a resolution of the General Meeting held on 7 June 2008.

Fourth. Re-election of directors.

Fifth. Re-election of auditors.

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

Seventh. Approval of the minutes of the meeting.

Proposed distribution of income

Distribution of income after taxes of 105,269 thousands of Euros: 32,567 thousands of Euros for dividends, 72,702 thousands of Euros to voluntary reserves.

Board of Directors

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

At 26 February 2009 the Directors owned 17.75% of the capital stock.

Supplementary Information 2004-2008

Consolidated Balance Sheets
Consolidated Income Statements
Stock market Information

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Consolidated Balance Sheets

as of December 31st 2008, 2007*, 2006*, 2005*, 2004* (Notes 1, 2 and 3) (Thousands of Euros)

Assets	2008	2007*	2006*	2005*	2004*
Non-current assets:					
Intangible assets (Note 7)					
Goodwill (Note 2-f)	5,447	48	-	-	-
Other intangible assets	167,725	197,508	101,289	12,633	14,119
	173,172	**197,556**	**101,289**	**12,633**	**14,119**
Property, plant and equipment, net (Note 8)	**204,630**	**171,923**	**155,610**	**146,409**	**138,020**
Investments accounted under the equity method (Note 9)	**13,468**	**2,064**	**835**	**729**	**847**
Non-current financial assets (Note 9)	**60,781**	**25,871**	**34,355**	**27,705**	**19,440**
Deferred tax assets (Note 18)	**72,582**	**44,409**	**13,430**	**5,036**	**1,111**
Total non-current assets	**524,633**	**441,823**	**305,518**	**192,510**	**173,538**
Current assets:					
Inventories (Note 11)	**78,875**	**18,929**	**50,893**	**67,389**	**15,790**
Trade and other receivables					
Trade receivables for sales and services (Note 12)	642,556	334,372	402,178	324,956	432,959
Other accounts receivable (Notes 7 and 15)	39,072	21,144	15,629	10,795	8,821
Current tax assets (Note 19)	1,821	1,607	1,008	1,653	643
	683,449	**357,123**	**418,815**	**337,405**	**442,423**
Other current financial assets (Note 9)	**509,539**	**454,835**	**270,659**	**40,800**	**24,283**
Other current assets	**396**	**324**	**820**	**580**	**457**
Cash and cash equivalents	**116,714**	**24,212**	**9,898**	**1,904**	**1,434**
Total current assets	**1,388,973**	**855,423**	**751,086**	**448,078**	**484,387**
Total assets	**1,913,606**	**1,297,246**	**1,056,604**	**640,589**	**657,925**

* Presented for comparison purposes only.

Equity and Liabilities	2008	2007*	2006*	2005*	2004*
Equity (Note 14):					
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	56,509	56,551	56,551
Other reserves of the Parent and of fully consolidated companies and companies accounted under the equity method	195,648	136,070	106,058	92,901	83,264
Profit for the year attributable to the Parent	105,741	87,626	34,639	18,143	14,038
	382,023	**304,330**	**219,388**	**189,777**	**176,035**
Valuation Adjustments					
Translation differences	(19,697)	(3,914)	3,957	1,164	(59)
Hedges	(204)	496	16	(984)	0
	(19,901)	**(3,418)**	**3,973**	**179**	**(59)**
Equity Attributable to the Parent	**362,122**	**300,912**	**223,361**	**189,957**	**175,976**
Minority interests	**15,208**	**3,574**	**2,670**	**2,659**	**1,959**
Total equity	**377,330**	**304,486**	**226,031**	**192,615**	**177,935**
Non-current liabilities:					
Long-term provisions	**3,812**	**872**	**1,301**	**1,362**	**1,226**
Non-current financial liabilities (Note 9)					
Bank borrowings (Note 16)	160,349	161,232	96,709	37	82
Other financial liabilities (Note 15)	65,937	92,411	83,887	63,471	66,655
	226,286	**253,643**	**180,596**	**63,508**	**66,737**
Deferred tax liabilities (Note 18)	**21,356**	**20,593**	**24,491**	**18,365**	**16,290**
Total non-current liabilities	**251,454**	**275,108**	**206,389**	**83,236**	**84,254**
Current liabilities:					
Short-term provisions	**199,458**	**114,995**	**82,310**	**39,520**	**23,956**
Current financial liabilities (Note 9)					
Bank borrowings (Note 16)	16,564	26,110	270	185	149
Other financial liabilities (Note 15)	29,173	20,586	20,171	16,839	11,326
	45,737	**46,696**	**20,441**	**17,024**	**11,474**
Trade and other payables					
Payable to suppliers	445,668	235,016	224,682	153,800	157,114
Other payables (Note 15)	569,792	298,458	278,218	147,513	198,538
Current tax liabilities (Note 19)	23,722	21,852	18,115	6,449	4,082
	1,039,182	**555,326**	**521,015**	**307,762**	**359,734**
Other current liabilities	**445**	**635**	**418**	**432**	**572**
Total current liabilities	**1,284,822**	**717,652**	**624,184**	**364,738**	**395,737**
Total equity and liabilities	**1,913,606**	**1,297,246**	**1,056,604**	**640,589**	**657,925**

* Presented for comparison purposes only.

Consolidated Incomes Statements

as of December 31st 2008, 2007*, 2006*, 2005*, 2004* (Notes 1, 2 and 3) (Thousands of Euros)

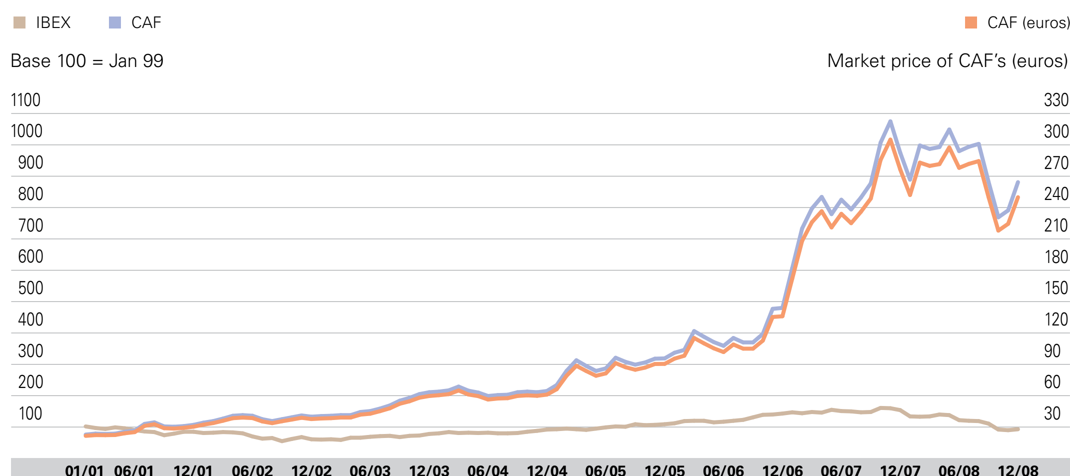
(Debit) Credit	2008	2007*	2006*	2005*	2004*
Continuing operations:					
Revenue (Note 6)	1,004,951	874,474	805,727	680,798	578,012
+/- Changes in inventories of finished goods and work in progress	10,177	(111,892)	(82,481)	269	(52,455)
In-house work on non-current assets	119	22	67	30	332
Procurements (Note 21)	(473,242)	(314,182)	(349,460)	(396,262)	(284,154)
Other operating income (Note 7)	40,646	1,989	1,101	856	420
Personnel expenses (Note 22)	(229,466)	(200,130)	(188,224)	(165,881)	(152,155)
Other operating expenses	(230,712)	(122,250)	(122,771)	(74,452)	(56,504)
Depreciation and amortisation charge (Notes 7 and 8)	(20,674)	(15,120)	(18,019)	(16,599)	(15,179)
Impairment losses and gains and losses on disposal of non-current assets (Notes 7 and 8)	182	22	615	(446)	(994)
Other gains or losses	373	(26,849)	(3,061)	(4,984)	(1)
Profit from operations	**102,354**	**86,084**	**43,495**	**23,330**	**17,322**
Finance income	17,156	8,527	1,641	459	492
Finance costs	(12,943)	(609)	(2,695)	(5,769)	(3,064)
Exchange differences	2,781	3,709	(16)	4,425	2,497
Impairment losses and gains and losses on disposal of financial instruments	(2,642)	(107)	(203)		
Financial profit	**4,352**	**11,520**	**(1,273)**	**(885)**	**(74)**
Result of companies accounted for using the equity method (Note 9)	(294)	387	298	205	217
Profit before tax	**106,412**	**97,991**	**42,519**	**22,650**	**17,465**
Income tax	296	(9,690)	(7,869)	(4,469)	(3,364)
Profit for the year from continuing operations	**106,708**	**88,301**	**34,650**	**18,180**	**14,101**
Consolidated profit for the year	**106,708**	**88,301**	**34,650**	**18,180**	**14,101**
Attributable to:					
Shareholders of the Parent	105,741	87,626	34,639	18,143	14,038
Minority interests	967	675	12	37	63
Earnings per share (in euros)					
Basic	30.85	25.56	10.10	5.29	4.10
Diluted	30.85	25.56	10.10	5.29	4.10

* Presented for comparison purposes only.

Stock market information

As of December 31, 2008, the Parent Company's capital stock amounted to €10,318,506 and consisted of 3,428,075 fully subscribed and paid listed shares of €3.01 par value each, traded by the book-entry system.

Trend in the market price of CAF's shares



	2008	2007	2006	2005	2004
Stock market capitalization					
Figures as of December 31	856,675,943	947,862,738	466,218,200	312,983,248	212,540,650
Per-share data					
Net earnings per share	30.85	25.56	10.10	5.29	4.10
Net income before taxes	31.04	28.58	12.40	6.61	5.09
Dividend per share	9.5	8.5	3.20	1.60	1.37
Per-share net book value	105.63	87.78	65.16	55.41	51.33
Stock market ratios					
PER	8.39	9.56	11.14	15.38	14.60
Average price/EBITDA	7.25	8.3	6.25	6.96	6.28
MV/BV (average price/book value)	2.45	2.78	1.73	1.47	1.16
Dividend yield	3.67%	3.48%	2.84%	1.97%	2.29%
Pay-out	30.80%	33.25%	31.67%	30.23%	33.46%

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.

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