



RELEVANT FACT

CARBURES EUROPE, S.A.

October 10, 2014

In compliance with the provisions of Circular 9/2010 of the Alternative Stock Market (*Circular 9/2010 del Mercado Alternativo Bursátil*), we hereby place the following information regarding CARBURES EUROPE, S.A. ("CARBURES" or the "Company") at the disposal of the market.

In connection with the relevant fact published last October 8, 2014, at 08:03 A.M., Carbures Europe S.A. wants to bring to the attention of the market the following information:

1. *Regarding the financial statements of December 31, 2013.*

There are discrepancies between the criteria used by the Company for the identification of related parties and the indicators taken into account by the auditor, which are based on the applicable legislation and on the additional information they have been provided. Although the Company's perception at the moment of preparing the Annual Statements of December 31, 2013 is that those companies that are currently under discussion were to be considered, according to the available information, independent, an external legal report has been requested by the Company to clarify this issue. This report shall be issued by a lawyer's office specializing in these matters.

The highest potential impact on the revenue and the results before taxes in 2013, taking into consideration the companies on which doubts have been raised to date, regarding their existing connection with the companies comprising Carbures Group, and raise questions regarding proper accounting recognition, are detailed below:

	Individual figures Carbures Europe, S.A. 2013	Individual figures Carbures Inc (USA) 2013	Consolidated figures 2013	Maximum potential amount affected
<i>(Millions of euro)</i>				
Net revenue	12.2	3.3	25.3	-11.5
Result before taxes	1.6	-0.9	3	-9

The breakdown of the EUR 11.5 million in revenue and the EUR 9 million in results before taxes is as follows:

<i>(Millions of euro)</i>				
Impact on revenue	Ansal	New Life	Sinatec	Total
Carbures Europe, S.A.	5.4	2.2	2.5	10.1
Carbures Inc (USA)	0	0.8	0.6	1.4
	5.4	3	3.1	11.5

<i>(Millions of euro)</i>				
Impact on results before taxes	Ansal	New Life	Sinatec	Total
Carbures Europe, S.A.	3.4	2.2	2.5	8.1
Carbures Inc (USA)	0	0.5	0.4	0.9
	3.4	2.7	2.9	9

At the date of the present communication, the analyses of the impact that the aforementioned connections may have in years other than 2013 are in progress.

Similarly, the potential impact of this issue on equity, balance sheet classifications, the profit and loss account and financial reports are pending analysis. These impacts shall be determined once the legal report on these potential connections is completed and once PwC concludes its work, whose results will be published as soon as possible, although it is not expected to be concluded before 6 weeks' time.

2. *Regarding the request of Carbures to the auditor to verify the suitability of the timing of the recognition of revenue and benefit margins related to the contract signed with Shenyang Hengrui & Exp. Trade Co. Ltd, which has been allocated by the Company in its intermediate financial statements of June 30, 2014.*

In connection with the relevant fact published last July 1, 2014, Carbures and Shenyang Hengrui & Exp. Trade Co Ltd (HENGRUI), a Chinese company specializing in steel and non-ferrous metal products and in introducing foreign equipment and technology into China, have signed, on May 30, 2014 and June 30, 2014, the following four contracts:

1. Contract no. 1: CARBURES (as Seller) and HENGRUI (as Buyer).
2. Contract no. 2: CARBURES (as Seller) and HENGRUI (as Buyer).
3. Contract no. 3: CARBURES (as Supplier) and HENGRUI (as Distributor).

4. Contract no. 4: CARBURES (as Transferor) and HENGRUI (as Transferee).

The main terms and conditions of the contracts signed with HENGRUI are detailed below:

To make the document easier to read, the following outline will be followed:

- Contract identification
- Parties involved in the contract
- Subject-matter and contents of the contract (mentioning the contractual safeguards of CARBURES)

CONTRACT NO. 1:

- Identification: *Master Agreement between CARBURES EUROPE S.A. and SHENYANG HENGRUI IMP& EXP TRADE CO LTD regarding the Sale and Distribution of Goods, Manufacture and Design Engineering Transfer and Prototype Manufacture Engineering Transfer.*

Signed on May 30, 2014.

- Parties involved: *CARBURES (as Seller) and HENGRUI (as Buyer);*
- Subject-matter and contents: It is the aim of the parties to enter into this Master Agreement, taking advantage of the CARBURES' position as a supplier of technological products and the position of HENGRUI as a specialist in introducing foreign technology and equipment into China.

The Master Agreement, although it will be overridden, due to its nature, by specific agreements in which the general lines will be subsequently developed, includes a literal reference of this circumstance. In fact, Clause III.15.a) stipulates that the Agreement shall only be in force until June 30, 2014, the date on which the parties shall have signed the main contracts, namely the Sale of Machinery, the Distribution of Goods and the Technology Transfer contracts, which are described below.

The Master Agreement includes:

- a) the future sale, from CARBURES to HENGRUI, of a certain number of machines using the RMCP technology, for which a patent application has been requested under the number referred to in the contract;
- b) the future distribution, initially in China, of the above-mentioned machinery by HENGRUI;
- c) the future transfer, from CARBURES to HENGRUI, of the RMCP technology and its associated know-how, as well as the rendering of engineering and engineering design services.

The Parties agree to apply the detailed regulation of each of all the above contractual relations to subsequent specific agreements.

The Master Agreement stipulates a total price of USD 97,036,000.00, deferring to a later time the breakdown and allocation of each part of the price to each one of the contracts that are submitted for signature.

The Master Agreement also includes the mutual interest of both parties to extend, as much as possible, their relationships outside China, when commercially relevant for both parties.

The CARBURES' safeguards are, in a non-exhaustive manner, the following:

- a) HENGRUI is prohibited to carry out reverse-engineering activities with respect to the machinery or technology described in the Master Agreement;
- b) HENGRUI is prohibited to assign the contract, unless expressly authorized by CARBURES;
- c) HENGRUI has the obligation, and is solely responsible for complying with and enforcing, within the Chinese territory, the current legislation regarding the activities to be carried out when executing, developing and/or complying with the terms of the contract.
- d) CARBURES will retain all rights and ownership title of intellectual and industrial property rights, always under the terms of this contract.

Finally, the contract contains the typical safeguards of this type of bilateral agreement, related to the event of insolvency, bankruptcy and/or liquidation of HENGRUI.

This Contract shall be governed by the Spanish legislation.

CONTRACT NO. 2:

- Identification: *Sale of Machinery with RMCP technology Contract between CARBURES EUROPE S.A. and SHENYANG HENGRUI IMP. & EXP. TRADE CO. LTD.*

Signed on June 30, 2014.

Parties involved: CARBURES (as Seller) and HENGRUI (as Buyer);

- Subject-matter and contents: According to the agreements adopted in Contract no.1, the parties enter into this Sale of Machinery with RMCP technology Contract.

The contract includes the sale of seven machines and their corresponding tools, which will be used to manufacture parts made of composite materials, especially carbon fiber.

At the time of the signature, the RMCP technology had a pending patent application (type "new fabrication process"), under the number ES20120030230 20120214.

The RMCP technology includes a controlled system which applies pressure and carries out a rapid multi-injection process for the manufacture of parts made of composite materials.

An annex (Annex I) is attached to the contract, concerning the basic technical specifications for the machinery sold and containing a variety of technical data.

Although the contract was signed on June 30, 2014, the parties expressly recognize that CARBURES has been carrying out, from January 1, 2014, previous engineering and design activities, which are a part of the contract. As will be stated below, this is directly reflected in the invoicing milestones.

The agreed price for the purchase of the seven machines, for their corresponding tools and for the installation and commissioning services amounts to USD 89,036,000.00.

Regarding the price to invoice, the parties agree as follows:

- a) CARBURES ASIA LIMITED, a 100% directly-owned subsidiary of CARBURES, shall act as its agent, merely for the purpose of managing the agreed price invoicing and collection, without being granted any right or benefit arising from the contract;
- b) 30% of the price shall be invoiced upon the approval of the engineering design of the machinery, by the technical department appointed by CARBURES;
- c) 30% of the price shall be invoiced upon the acquisition and collection by CARBURES of all the required components to design and manufacture the machinery;
- d) 30% of the price shall be invoiced upon the approval of the machinery, by the technical department appointed by CARBURES; and
- e) 10% of the price shall be invoiced upon the set-up and installation of the machinery at the location of destination.

Regarding the payment methods, one system shall be used for the first machine (which acts as a "key issue") and the remaining machines using a different one (without including, obviously, the first one):

- HENGRUI shall pay 50% of the first machine's price upon the setup, installation and connection of the machine. Payment shall be made by means of a bank accepted by both Parties (issued by a First Class International Bank) with a maturity date of ninety (90) days. The means of payment shall be delivered by HENGRUI to CARBURES within 10 days from the written communication sent by CARBURES confirming such a milestone.

- HENGRUI shall pay 50% of the first machine's price once the Run and Rate test has been successfully completed. Payment shall be made by means of a valid bank accepted by both Parties (issued by a First Class International Bank) with a maturity date of ninety (90) days. The means of payment shall be delivered by HENGRUI to CARBURES within 10 days from the written communication sent by CARBURES confirming such a milestone.
- With regard to the rest of machines (machines 2 to 7, both inclusive), HENGRUI shall pay 100% of each machine's price upon successful completion of the Run and Rate test. Payment shall be made by means of a valid bank accepted by both Parties (issued by a First Class International Bank) with a maturity date of ninety (90) days. The means of payment shall be delivered by HENGRUI to CARBURES within 10 days from the written communication sent by CARBURES confirming such a milestone.

The estimated delivery dates of the machines are:

- 1st machine not later than December 31st 2014
- 2nd and 3rd machines not later than March 31st 2015
- 4th and 5th machines not later than July 31st 2015
- 6th and 7th machines not later than November 31st 2015

At HENGRUI's election, the machinery may be delivered on the following dates:

- 1st machine not later than December 31st 2014
- 2nd and 3rd machines not later than July 31st 2015
- 4th, 5th, 6th and 7th machines not later than December 31st 2015

CARBURES shall set up and install the machines at the locations specified by HENGRUI at the moment of every purchase order. The sett-up and installation process shall take a maximum a 2 month period from the receipt of the goods at HENGRUI's designated premises.

The machines covered by the contract have a two-year warranty by CARBURES.

The CARBURES' safeguards are, in a non-exhaustive manner, the following:

- a) HENGRUI is obligated to obtain and issue, at least, one Letter of Interest (LOI), which must be issued by an entity included in the following categories: First Class International/Chinese Prominent Financial Company/Group of Companies and First Class International/Chinese Prominent Industrial Company/Group of Companies.

This/these Letter(s) must contain the issuer's backing or support of the project and/or one of a specific company involved in the project in question.

- b) HENGRUI is prohibited from carrying out reverse-engineering activities with respect to the machinery or technology described in the contract;

- c) HENGRUI has the obligation, and it is solely responsible for complying with and enforcing, within the Chinese territory, the current legislation regarding the activities to be carried out when executing, developing and/or complying with the terms of the contract.
- d) CARBURES will retain all rights and ownership title of intellectual and industrial property rights, always under the terms of this contract.

Finally, the contract contains the typical safeguards of this type of agreement, related to the event of insolvency, bankruptcy and/or liquidation of HENGRUI.

This Contract shall be governed by the Spanish legislation.

CONTRACT NO. 3:

- Identification: *Distribution of Goods Contract between CARBURES EUROPE S.A. and SHENYANG HENGRUI IMP. & EXP. TRADE CO. LTD.*

Signed on June 30, 2014.

- Parties involved: CARBURES (as Supplier) and HENGRUI (as Distributor).

Subject-matter and contents: According to the agreements adopted in Contract no.1, the parties enter into this Distribution of Machinery with RMCP technology Contract, by which CARBURES appoints HENGRUI as its sole distributor in China.

Contract no. 1 established the sale of machinery and the appointment of HENGRUI as its sole distributor in China of machines identical to those in the Sale Contract, in addition to the seven machines agreed to in said contract. The appointment of HENGRUI as the sole and exclusive distributor in China will initially be valid for a five-year period.

Likewise, the parties agree to consider expanding the operating territory, initially China, to other countries to be agreed upon by the parties and always within Asia.

The parties agree to the distribution of machinery and the corresponding tools, which will be used to manufacture parts made of composite materials, especially carbon fiber.

At the time of the signature, the RMCP technology had a pending patent application (type "new fabrication process"), under the number ES20120030230 20120214.

The RMCP technology includes a controlled system that applies pressure and carries out a rapid multi-injection process for the manufacture of parts made of composite materials.

An annex (Annex I) is attached to the contract, concerning the basic technical specifications for the machinery to be distributed and containing a variety of technical data.

Although the contract was signed on June 30, 2014, the parties expressly recognize that CARBURES has been carrying out, from January 1, 2014, previous engineering and design activities, which are a part of the contract. As will be stated below, this is directly reflected in the invoicing milestones.

The purchase price of each machine and of its corresponding tools shall be fixed by the parties according to the prices and catalogues provided annually by CARBURES to HENGRUI on, or before, January 31 each year.

Regarding the price to invoice, the parties agree as follows:

- a) CARBURES ASIA LIMITED, a 100% directly-owned subsidiary of CARBURES, shall act as its agent, merely for the purposes of managing the agreed price billing and collection, without being granted any right or benefit arising from the contract;
- b) 30% of the price shall be invoiced upon the approval of the engineering design of the machinery, by the technical department appointed by CARBURES;
- c) 30% of the price shall be invoiced upon the acquisition and collection, by CARBURES, of all the required components to design and manufacture the machinery;
- d) 30% of the price shall be invoiced upon the approval of the machinery, by the technical department appointed by CARBURES; and
- e) 10% of the price shall be invoiced upon the sett-up and installation of the machinery at the destination location.

Regarding the payment conditions, HENGRUI shall pay 100% of each machine to be distributed once the corresponding Run and Rate test has been successfully completed. Payment shall be made by means of a bank accepted by both Parties (issued by a First Class International Bank) with a maturity date of ninety (90) days. The means of payment shall be delivered by HENGRUI to CARBURES within 10 days from the written communication sent by CARBURES confirming such a milestone.

The machines covered by the Distribution Contract have a two-year warranty by CARBURES.

The CARBURES' safeguards are, in a non-exhaustive manner, the following:

- a) HENGRUI is prohibited from improper use of the machinery to be distributed, as well as from carrying out reverse-engineering activities on the machinery or technology described in the contract;
- b) HENGRUI is prohibited from assigning the contract, unless expressly authorized by CARBURES;

- c) YONGTAO GU (shareholder of HENGRUI) is prohibited from transferring HENGRUI's shares or share rights, without the prior consent of CARBURES, unless this transfer is made to the HENGRUI's holding or to the companies comprising HENGRUI Group, in which YONGTAO GU has the control of such holdings/group of companies. According to the contract, CARBURES may transfer any of the benefits obtained from this contract to any of its subsidiaries.
- d) From the signature of the contract and up to March 31, 2016, HENGRUI has a minimum distribution commitment of seven machines.
- e) HENGRUI has the obligation, and it is the sole responsible for complying with and enforcing, within the Chinese territory, the current legislation regarding the activities to be carried out when executing, developing and/or complying with the terms of the contract;
- f) CARBURES will retain all rights and ownership title of intellectual and industrial property rights, always under the terms of this contract.

Finally, the contract contains the typical safeguards of this type of bilateral agreement, related to the event of insolvency, bankruptcy and/or liquidation of HENGRUI.

This Contract shall be governed by the Spanish legislation.

CONTRACT NO. 4:

- Identification: *RMCP technology Transfer Contract between CARBURES EUROPE S.A. and SHENYANGHENGRUI IMP. & EXP. TRADE CO. LTD.*

Signed on June 30, 2014.

- Parties involved: CARBURES (as Transferor) and HENGRUI (as Transferee).
- Subject-matter and contents: According to the agreements adopted in contract no. 1, the parties enter into this RMCP technology Transfer Contract, through which CARBURES transfers to HENGRUI the RCMP technology in order to manufacture machinery with RMCP technology within the Chinese territory.

Likewise, the parties agree to consider expanding the operating territory, initially China, to other countries to be agreed upon by the parties and always within Asia.

The parties agree to the distribution of machinery, and the corresponding tools, which will be used to manufacture parts made of composite materials, especially carbon fiber.

At the time of the signature, the RMCP technology had a pending patent application (type "new fabrication process"), under the number ES20120030230 20120214.

The RMCP technology includes a controlled system that applies pressure and carries out a rapid multi-injection process for the manufacture of parts made of composite materials. The technology transferred is limited to manufacturing technology, engineering design and manufacturing engineering for prototypes.

The contract contains two annexes:

- a) Annex I, referring to the milestones related with the RMCP technology transfer from CARBURES to HENGRUI
- b) Annex II, concerning the basic technical specifications for the machinery to be distributed and containing various technical data. We refer to the wording of this Annex, for the purpose of verification.

Although the contract was signed on June 30, 2014, the parties expressly recognize that CARBURES has been carrying out, from January 1, 2014, previous engineering and design activities, which are a part of the contract. As will be stated below, this is directly reflected in the invoicing milestones.

The price agreed, as a Royalty, for the transference of RMCP technology amounts to USD 8,000,000.00.

Regarding the price to invoice, the parties agree as follows:

- a) CARBURES ASIA LIMITED, a 100% directly-owned subsidiary of CARBURES, shall act as its agent, merely for the purposes of managing the agreed price billing and collection, without being granted any right or benefit arising from the contract.
- b) 100% of the price shall be invoiced on or before December 31st 2014.

The payment of the Royalty shall be made at one-time within the 10 days following the date in which the first machine is effectively delivered to HENGRUI. The payment shall be made by means of a bank mean accepted by both Parties (issued by a First Class International Bank) with a maturity date of ninety (90) days. The means of payment shall be delivered by HENGRUI to CARBURES within 10 days from the written communication sent by CARBURES confirming such a milestone.

The contract excludes the establishment and expansion of CARBURES in China, in relation with the market of goods and parts with RMCP technology t, within a five-year period following the signature of the contract. Notwithstanding the foregoing, the parties agree that, in the event CARBURES decided to start an establishment and expansion process before the end of such period, both parties shall agree the terms and conditions thereof.

The CARBURES' safeguards are, in a non-exhaustive manner, the following:

- a) HENGRUI is prohibited from assigning the contract, unless expressly authorized by CARBURES;

- b) HENGRUI is not entitled to grant any sub-licenses to third parties other than HENGRUI's final clients;
- c) YONGTAO GU (shareholder of HENGRUI) is prohibited from transferring HENGRUI's shares or share rights, without the prior consent of CARBURES, unless this transfer is made to the HENGRUI's holding or to the companies comprising HENGRUI Group in which YONGTAO GU has the control of such holdings/group of companies. According to the contract, CARBURES may transfer any of the benefits obtained from this contract to any of its subsidiaries;
- d) HENGRUI has the obligation, and it is solely responsible for complying with and enforcing, within the Chinese territory, the current legislation regarding the activities to be carried out when executing, developing and/or complying with the terms of the contract;
- e) CARBURES will retain all rights and ownership title of intellectual and industrial property rights, always under the terms of this contract.

Finally, the contract contains the typical safeguards of this type of bilateral agreement, related to the event of insolvency, bankruptcy and/or liquidation of HENGRUI.

This Contract shall be governed by the Spanish legislation.

The accounting method applied by the Company for the revenue recognition of Contract no. 2 (Sale of Machinery with RMCP technology Contract between CARBURES EUROPE and SHENYANG HENGRUI IMP. & EXP. TRADE CO. LTD.) is the percentage-of-completion method, which is one of the methods accepted by the accounting regulations. As of June 30, 2014, the milestone referring to the approval of the engineering design of the machinery by the technical department appointed by CARBURES is considered to be concluded. This milestone has been valued as 30% of the percentage of completion, allocating, on that date, the amount of EUR 19.6 million in revenue. The costs incurred arising from that contract have been allocated in the financial statements of June 30, 2014 in the amount of EUR 3.6 million, so the result before taxes has been positive at EUR 16 million. These amounts are pending to be collected. The collection is estimated for 2015.

The other two methods contained in the accounting regulations for recognizing this type of projects (depending on the contracts) are the following:

- Proportional revenue recognition, following the percentage-of-completion method but based on the costs incurred plus the contract average margin. "Cost to cost method".
- In contracts where the transfer of risks and benefits is not carried out until a specific point in time (for instance, the delivery of goods, which is scheduled in this contract between the first quarter of 2015 and no later than December 31, 2015, depending on the machine), the revenue recognition is dependent on that moment.

The final conclusion on the accounting recognition method for these contracts shall be determined once PwC concludes its audit of the financial statements of June 30, 2014, whose results will be published as soon as possible, although it is expected not expected to be concluded before the 6 weeks' time.

Finally, the Company hereby states that, based on the foregoing, the percentage of completion of the Business Plan of the Company, which was published in a relevant fact dated March 7, 2014 (and taking into account the potential delay in the financing that this circumstance may cause) cannot be accurately determined until the method that has to be used is set. The Company may amend the allocation of the EUR 19.6 million in revenue and this would have an effect on the result before taxes, where EUR 16 million were allocated on June 30, 2014.

Carbures shall report the percentage of completion of the Business Plan and, where appropriate, the potential deviations resulting from the audit of the financial statements of June 30, 2014 carried out by PwC.

Jerez de la Frontera, October 10, 2014

CARBURES EUROPE, S.A.

Mr. Rafael Contreras Chamorro
On behalf of Rafcon Economist, S.L. as
Chief Executive Officer of CARBURES EUROPE, S.A.

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