Interim consolidated financial statements

Half-year ended 30 September 2006

INTERIM CONSOLIDATED INCOME STATEMENTS

(in € million)	Note	Half-year ended 30 September 2006	Half-year ended 30 September 2005	Year ended 31 March 2006
SALES	(23)	**6 608**	**6 779**	**13 413**
Cost of sales		(5 409)	(5 641)	(11 080)
Selling expenses		(264)	(280)	(569)
Research and development expenses	(5)	(205)	(162)	(364)
Administrative expenses		(317)	(326)	(654)
INCOME FROM OPERATIONS	(23)	**413**	**370**	**746**
Other income	(6)	18	152	233
Other expenses	(6)	(59)	(110)	(252)
EARNINGS BEFORE INTEREST AND TAXES	(23)	**372**	**412**	**727**
Financial income (expenses), net	(7)	(61)	(90)	(222)
PRE-TAX INCOME		**311**	**322**	**505**
Income tax charge	(8)	(78)	(75)	(125)
Share in net income (loss) in associates		-	(1)	(1)
NET PROFIT FROM CONTINUING OPERATIONS		**233**	**246**	**379**
NET LOSS FROM DISCONTINUED OPERATIONS	(9)	**(15)**	**(107)**	**(198)**
NET PROFIT		**218**	**139**	**181**
Attributable to:				
- Group share		227	136	178
- Minority interests		(9)	3	3
Earnings per share (in €)				
From continuing and discontinued operations				
- Basic	(10)	1.60	0.97	1.27
- Diluted	(10)	1.57	0.97	1.26
From continuing operations				
- Basic	(10)	1.71	1.73	2.68
- Diluted	(10)	1.67	1.73	2.65
From discontinued operations				
- Basic	(10)	(0.11)	(0.76)	(1.41)
- Diluted	(10)	(0.10)	(0.76)	(1.39)

The accompanying notes are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED BALANCE SHEETS

(in € million)	**Note**	**At 30 September 2006**	**At 31 March 2006**
ASSETS			
Goodwill	(11)	3 317	3 323
Intangible assets, net	(11)	1 185	1 197
Property, plant and equipment, net	(12)	1 328	1 361
Associates and other investments, net		123	99
Other non-current assets, net	(13)	1 314	1 250
Deferred taxes	(8)	1 301	1 249
Total non-current assets		**8 568**	**8 479**
Inventories, net		1 689	1 488
Construction contracts in progress, assets	(14)	2 611	2 229
Trade receivables, net		2 256	2 291
Other current assets related to operating activities, net	(15)	1 421	1 454
Marketable securities and other current financial assets, net	(16)	185	22
Cash and cash equivalents		1 455	1 301
Total current assets		**9 617**	**8 785**
Assets held for sale	(22)	**803**	**1 144**
TOTAL ASSETS		**18 988**	**18 408**
LIABILITIES			
Shareholders' equity		2 000	1 782
Minority interests		43	58
Total equity		**2 043**	**1 840**
Non-current provisions	(18)	528	581
Accrued pension and retirement benefits	(19)	793	792
Non-current borrowings	(20)	2 028	2 018
Non-current obligations under finance leases	(20)	183	193
Deferred taxes	(8)	91	39
Total non-current liabilities		**3 623**	**3 623**
Current provisions	(18)	1 563	1 539
Current borrowings	(20)	18	320
Current obligations under finance leases	(20)	22	40
Construction contracts in progress, liabilities	(14)	6 300	5 401
Trade payables		2 905	2 872
Other current liabilities	(21)	1 654	1 630
Total current liabilities		**12 462**	**11 802**
Liabilities directly associated with assets held for sale	(22)	**860**	**1 143**
TOTAL LIABILITIES		**18 988**	**18 408**

The accompanying notes are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in € million)	Note	Half-year ended 30 September 2006	Half-year ended 30 September 2005	Year ended 31 March 2006
Net profit from continuing operations		**233**	**246**	**379**
Depreciation, amortisation and share-based payments		152	199	424
Changes in pension assets and accrued pension / retirement benefits, net		(15)	(1)	-
Net (gain) loss on disposal of non current assets and investments	(6)	(10)	(123)	(147)
Share in net (income) loss in associates (net of dividends received)		-	1	1
Changes in deferred tax	(8)	(14)	(15)	(30)
Net income after elimination of non cash items		**346**	**307**	**627**
Changes in net working capital	(17)	**486**	**164**	**158**
Net cash provided by operating activities - continuing operations		**832**	**471**	**785**
Proceeds from disposal of tangible and intangible assets		6	9	60
Capital expenditure		(125)	(120)	(294)
Decrease (increase) in other non-current assets, marketable securities and other current financial assets	(16)	(143)	9	22
Cash expenditure for acquisition of investments, net of net cash acquired		(26)	(8)	(13)
Cash proceeds (expenditure) from sale of investments, net of net cash sold	(6)	(44)	280	257
Net cash provided by (used in) investing activities - continuing operations		**(332)**	**170**	**32**
Capital increase		-	2	6
Issuance (repayment) of current and non-current borrowings		(201)	147	(369)
Issuance (repayment) of obligations under finance leases		(28)	(15)	(42)
Dividends paid including minorities		(5)	(5)	(4)
Net cash provided by (used in) financing activities - continuing operations		**(234)**	**129**	**(409)**
Decrease in cash and cash equivalents - discontinued operations	(9) (22)	(89)	(250)	(215)
Transfer to assets held for sale	(9) (22)	-	-	(317)
Net effect of exchange rate		(21)	42	24
Other changes		(2)	(14)	(3)
Increase (decrease) in cash and cash equivalents		**154**	**548**	**(103)**
Cash and cash equivalents at the beginning of the period		**1 301**	**1 404**	**1 404**
Cash and cash equivalents at the end of the period		**1 455**	**1 952**	**1 301**
Cash paid for income taxes		91	20	85
Cash paid for net interest		14	57	171
Net debt variation analysis:				
Increase (decrease) in cash and cash equivalents		154	548	(103)
Increase (decrease) in marketable securities and other current financial assets		162	5	(2)
(Issuance) repayment of current and non-current borrowings		201	(147)	369
(Issuance) repayment of obligations under finance leases		28	15	42
Net cash used in financing activities - discontinued operations		89	8	103
Net effect of exchange rate		3	2	(6)
Decrease (increase) in net debt		637	431	403
Net debt at the beginning of the period (a)		(1 248)	(1 651)	(1 651)
Net debt at the end of the period (a)		(611)	(1 220)	(1 248)

(a) The net debt corresponds to financial debt (see Note 20) less cash and cash equivalents and marketable securities and other current financial assets (see Note 16).

The accompanying notes are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND MINORITY INTERESTS

(in €million) Except for number of shares	Number of outstanding shares	Capital	Additional paid-in capital	Retained earnings	Share-based payments	Cumulative translation adjustment	Shareholders' equity	Minority interests	Total equity
At 1 April 2005	**5,497,211,409**	**1 924**	**378**	**(767)**	**-**	**(20)**	**1 515**	**68**	**1 583**
Conversion of ORA (3)	403,885	-	1	-	-	-	1	-	1
Consolidation of shares (4)	(5,360,161,677)	-	-	-	-	-	-	-	-
Changes in cumulative translation adjustments	-	-	-	-	-	91	91	4	95
Change in scope	-	-	-	-	-	-	-	(16)	(16)
Net profit	-	-	-	136	-	-	136	3	139
At 30 September 2005	**137,453,617**	**1 924**	**379**	**(631)**	**-**	**71**	**1 743**	**59**	**1 802**
Conversion of ORA (3)	717,159	10	(11)	-	-	-	(1)	-	(1)
Changes in cumulative translation adjustments	-	-	-	-	-	(39)	(39)	(1)	(40)
Change in scope	-	-	-	-	-	-	-	-	-
Share-based payments (5)	-	-	-	-	40	(3)	37	-	37
Net profit	-	-	-	42	-	-	42		42
At 31 March 2006	**138,170,776**	**1 934**	**368**	**(589)**	**40**	**29**	**1 782**	**58**	**1 840**
Conversion of ORA (1)	86,718	1	1	(6)	-	-	(4)	-	(4)
Changes in cumulative translation adjustments	-	-	-	-	-	(10)	(10)	(3)	(13)
Dividends paid	-	-	-	-	-	-	-	(3)	(3)
Share-based payments (2)	1,500	-	-	-	5	-	5	-	5
Net profit	-	-	-	227	-	-	227	(9)	218
At 30 September 2006	**138,258,994**	**1 935**	**369**	**(368)**	**45**	**19**	**2 000**	**43**	**2 043**

- **Shareholders' equity movement between 1 April 2006 and 30 September 2006**

(1) During the half-year ended 30 September 2006, 2,761,309 bonds reimbursable with shares "Obligation Remboursables en Actions" were converted into shares, resulting in the issuance of 86,718 shares at a par value of €14. At 30 September 2006, 68,284,025 bonds reimbursable with shares are outstanding for an amount of €96 million, representing 2,144,118 shares to be issued.

(2) See Note 26 – Share-based payments

- **Shareholders' equity movement between 1 April 2005 and 31 March 2006**

(3) During the year ended 31 March 2006, 23,573,581 bonds reimbursable with shares "Obligation Remboursables en Actions" were converted into shares, resulting in the issuance of 390,311 shares before the consolidation of shares (see below) at a par value of €0.35 and 730,733 shares after the consolidation of shares at a par value of €14. At 31 March 2006, 71,045,334 bonds reimbursable with shares are outstanding for an amount of €99 million, representing 2,230,823 shares to be issued.

(4) On 3 August 2005, ALSTOM consolidation of shares was completed through the exchange of 40 existing shares for one new share. The number of ALSTOM shares has consequently been reduced from 5,497,601,720 shares with a nominal value of €0.35 to 137,440,043 shares with a nominal value of €14.

(5) See Note 26 – Share-based payments

At 30 September 2006, the share capital amounts to €1,935,625,916 consisting of 138,258,994 shares with a nominal value of €14 per share. All shares are fully paid up.

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Note 1 – Description of business

ALSTOM (the Group) serves the power generation market through its Power Turbo-Systems / Power Environment Sector and its Power Service Sector, and the rail transport market through its Transport Sector. The Group designs, supplies, and services a complete range of technologically advanced products and systems for its customers, and possesses a unique expertise in systems integration and through-life maintenance and service. The Group's business is not materially affected by seasonality.

The principal activities of the Group are described in Note 23.

Note 2 – Basis of preparation of the interim consolidated financial statements

Following the coming into force of European Reporting Regulation n°1606/2002, companies listed in the European Union have been required to adopt International Financial Reporting Standards (IFRS/IAS) as endorsed by the European Union in the preparation of their consolidated financial statements covering periods beginning on or after 1 January 2005.

ALSTOM interim consolidated financial statements for the half-year ended 30 September 2006 have been prepared in accordance with IAS 34 standard "Interim Financial Reporting" and in accordance with IAS/IFRS standards and interpretations adopted by the European Union at 30 September 2006. As they are condensed financial statements, they do not include all the information required by IAS/IFRS standards for the year-end financial statements and should therefore be read in conjunction with the consolidated financial statements for the year ended 31 March 2006.

The accounting policies and measurement principles adopted for the interim consolidated financial statements at 30 September 2006 are described in Note 3 and are the same as those adopted for the consolidated financial statements at 31 March 2006, with the exception of new or revised standards and interpretations effective for the financial year beginning on 1 April 2006 described below. The adoption of these new standards and interpretations has no major impact on the interim consolidated financial statements at 30 September 2006.

The income statement and the cash flow statement for the half-year ended 30 September 2005 presented as comparative information are different from the ones presented in the interim consolidated financial statements at 30 September 2005 following the reclassification, according to IFRS 5 standard, of operations designated as discontinued at 30 September 2006 (see Note 9).

ALSTOM interim consolidated financial statements for the half-year ended 30 September 2006 have been prepared using the historical cost convention, with the exception of certain assets and liabilities in accordance with applicable IFRS standards. Categories of assets and liabilities concerned are mentioned in Note 3.

On 9 November 2006, the Board of Directors authorised for issue the interim consolidated financial statements for the half-year ended 30 September 2006.

(a) Standards and interpretations newly effective

The following standards and interpretations become effective for the preparation of interim consolidated financial statements at 30 September 2006:

- Amendment to IAS 19 "Employee benefits: actuarial gains and losses, group plans and disclosures"
  The option providing for the elimination of the corridor method and for the recognition of actuarial gains and losses directly in equity has not been utilised for the preparation of the interim consolidated financial statements at 30 September 2006.
  Additional requirements regarding disclosures will be fulfilled in the notes to the consolidated financial statements for the year ended 31 March 2007.
- IAS 21 revised "Effect of changes in foreign exchange rates"
  This revision which modifies the accounting treatment of exchange differences related to investments in foreign operations has no significant impact on the interim consolidated financial statements at 30 September 2006.

- Amendment to IAS 39 on fair value option
  According to this amendment, an entity may designate a financial asset or liability as being at fair value through the income statement on initial recognition only in very limited circumstances. The Group does not apply fair value option at 30 September 2006.
- Amendment to IAS 39 on cash flow hedge with respect to future intra-group transactions
  The implementation of this amendment has no impact on the interim consolidated financial statements at 30 September 2006 since, starting from the implementation of IAS 39 at 1 April 2005, fair value hedge accounting has been applied to intra group firm commitments, provided that the foreign currency risk affects the consolidated income statement; forecast intra-group transactions which had not yet turned into firm commitments are not hedged.
- IFRIC 4 "Determining whether an arrangement contains a lease"
  IFRIC 4 gives guidance on determining whether arrangements that do not take the legal form of a lease should, nonetheless, be accounted for in accordance with IAS 17 "Leases". The implementation of this interpretation has no significant impact on the interim consolidated financial statements at 30 September 2006.
- IFRIC 7 "Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary economies"
  The implementation of this interpretation has no material impact on the interim consolidated financial statements at 30 September 2006.

The following standards and interpretations effective for annual periods beginning on or after 1 January 2006 are not applicable to the Group's activities:

- IFRS 4 revised "Insurance contracts"
- Amendment to IAS 39 related to financial guarantee contracts
- IFRS 6 "Exploration for and evaluation of mineral resources"
- IFRIC 5 "Rights to interests arising from decommissioning. Restoration and environmental rehabilitation funds"
- IFRIC 6 "Liabilities arising from participating in a specific market - Waste electrical and electronic equipment".

(b) Accounting standards, amendments and interpretations published but not yet effective

The Group has not opted for an early application of the following standards and interpretations which are not yet effective at the date of authorisation of the interim consolidated financial statements for the half-year ended 30 September 2006:

- Amendment to IAS 1 "Capital disclosures"
- IFRS 7 "Financial instruments disclosures"
- IFRIC 8 "Scope of IFRS 2 Share-based payments"
- IFRIC 9 "Reassessment of embedded derivatives"
- IFRIC 10 "Interim financial reporting and impairment"

The Group is currently analysing the practical effects of these new standards and interpretations and their implication for the consolidated financial statements.

Note 3 – Summary of accounting policies

(a) Consolidation methods

- Subsidiaries

Entities over which the Group exercises effective control, are fully consolidated. Control exists where the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities, whether it holds shares or not.

Inter company balances and transactions are eliminated on consolidation.

Results of operations of subsidiaries acquired or disposed of during the year are recognised in the consolidated income statement as from the date of acquisition or up to the date of disposal, respectively.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination.
Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

- Interests in joint ventures

Joint ventures are companies over which the Group has joint control. They are consolidated using the proportionate method with the Group's share of the joint ventures' results, assets and liabilities recorded in the consolidated financial statements.

- Investments in associates

Entities in which the Group exercises significant influence, but not control, are accounted for under the equity method.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are not recognised, except if the Group has a legal or implicit obligation.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

A list of the Group's major consolidated subsidiaries, joint ventures and associates and the applicable method of consolidation is provided in Note 28.

(b) Use of estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, sales and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Management reviews estimates on an ongoing basis using currently available information. Total expected revenue and costs on a contract reflect management's current best estimate of the probable future benefits and obligations associated with the contract. The assumptions to calculate present and future obligations take into account current technology as well as the commercial and contractual positions, assessed on a contract-by-contract basis. The introduction of technologically advanced products exposes the Group to risks of product failure significantly beyond the terms of standard contractual warranties applying to suppliers of equipment only.
Significant items subject to such estimates and assumptions include revenue and margin recognition on long term contracts, provisions related to warranties and litigations, assets and liabilities related to post-employment and long-term employee benefits, impairment of non current assets and deferred taxes.
Actual results may differ from those estimates, due to changes in facts and circumstances.

(c) Sales and costs generated by operating activities

- Measurement of sales and cost of sales

The amount of revenue arising from a transaction is usually determined by the contractual agreement with the customer.

In case of construction contracts, claims are considered in the determination of contract revenue only when it is highly probable that the claim will result in additional revenue and the amount can be reliably estimated.

Conversely, penalties are taken into account in reduction of contract revenue as soon as they are probable.

Production costs include direct (such as material and labour) and indirect costs, including warranty costs. Warranty costs are estimated on the basis of contractual agreement, available statistical data and weighting of all possible outcomes against their associated probabilities. Warranty periods may extend up to five years.

Research and development expenses as well as selling and administrative expenses are excluded from production costs.

- Recognition of sales and cost of sales

Whatever the type of contracts, sales are recognised only when the outcome of the transaction can be assessed reliably.

Revenue on sale of manufactured products and service contracts which are of less than one year duration is recognised when the significant risks and rewards of ownership are transferred to the customer, which generally occurs on delivery and performance of service activities. All production costs incurred or to be incurred in respect of the sale are charged to cost of sales at the date of recognition of sales.

Revenue on construction contracts and long term service agreements is recognised on the percentage of completion method: the stage of completion is assessed by milestones which ascertain the completion of a physical proportion of the contract work or the performance of services prescribed by the agreement. The excess of revenue measured at percentage of completion over the revenue recognised in prior periods is the revenue for the period.

Cost of sales on construction contracts and long-term service agreements is computed on the same basis. The excess of cost to be recognised over the cost of sales recognised in prior periods is the cost of sales for the period. As a consequence, adjustments to contract estimates resulting from job conditions and performance are recognised in cost of sales as soon as they occur, pro rata to the stage of completion.

When it is probable that contract costs at completion will exceed total contract revenue, the expected loss is recognised as an expense immediately.

With respect to construction contracts and long-term service agreements, the aggregate amount of costs incurred to date plus recognised margin less progress billings is determined on a contract-by-contract basis. If the amount is positive, it is included as an asset designated as “Construction contracts in progress, assets”. If the amount is negative, it is included as a liability designated as “Construction contracts in progress, liabilities”.
The caption “Construction contracts in progress, liabilities” also includes advances received from customers.

- Recognition of operating costs other than cost of sales

Selling and administrative expenses are expensed as incurred.
Research expenses are expensed as incurred. Development costs are expensed as incurred unless the project they relate to meets the criteria for capitalisation (see note 3 - j).

(d) Income (loss) from operations

Income (loss) from operations includes gross margin, administrative and selling expenses and research and development expenses. It includes in particular the service cost of pensions, cost of share-based payments, employee profit sharing, foreign exchange gains or losses associated with operating transactions, including hedge accounting impacts, and capital gains (losses) on disposal of intangible and tangible assets arising from ordinary activities.

(e) Other income and other expenses

Other income includes capital gains on disposal of investments or activities and capital gains on disposal of intangible and tangible assets arising from activities disposed of or facing restructuring plans as well as any income associated to past disposals.
Other expenses include capital losses on disposal of investments or activities and capital losses on disposal of intangible and tangible assets arising from activities disposed of or facing restructuring plans as well as any costs associated to past disposals, restructuring costs, a portion of pension costs (amortisation of actuarial gains and losses, unrecognised prior service cost and impacts of curtailments and settlements) and major impairments of assets.

(f) Financial income and expenses

Financial income and expenses include:

- Interest charges and income relating to bonds, the liability component of compound instruments, other borrowings including lease-financing liabilities, cash and cash equivalents and other assets relating to financing transactions;
- Other expenses paid to financial institutions for financing operations;
- Interest charges and bank fees relating to securitisation of receivables;
- The financial component of the pension cost (interest cost and expected return on assets);
- Dividends received from non consolidated investments;
- Foreign exchange gains and losses including hedge accounting impacts associated to financing transactions.

(g) Translation of financial statements denominated in foreign currency

The individual financial statements of the Group's foreign subsidiaries, joint ventures and associates are presented in the primary economic environment in which the entity operates. Therefore their functional currency is generally the applicable local currency.

For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Euro, which is the functional currency of the Group and the presentation currency for the consolidated financial statements. Assets and liabilities of foreign subsidiaries located outside the Euro zone are translated into Euros at the closing rate of exchange, and their income statements and cash flow statements are converted at the average rate of exchange for the period. The resulting translation adjustment is included as a component of shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(h) Foreign currency transactions

Foreign currency transactions are initially recognised by applying to the foreign currency amount the spot exchange rate between the functional currency of the reporting unit and the foreign currency at the date of the transaction. Units of currency held and assets and liabilities to be received or paid resulting from those transactions are re-measured at closing exchange rates at the end of each reporting period. Realised exchange gains or losses at date of payment as well as unrealised gains or losses deriving from re-measurement are recorded in the income statement, within income from operations when they relate to operating activities or within financial income or expense when they relate to financing activities.

Since the Group is exposed to foreign currency volatility, it takes significant levels of forward cover relating to this exposure. These derivatives are recognised on the balance sheet at fair value at the closing date.
Providing that the relationships between foreign currency exposures and the related derivatives are qualifying relationships, the Group uses the specific accounting treatments designated as hedge accounting.
A relationship qualifies for hedge accounting if, at the inception of the hedge, it is formally designated and documented and if it proves to be highly effective throughout the financial reporting periods for which the hedge was initially designated.
Hedging relationships could be of three types:

- Cash flow hedges in case of hedge of the exposure to variability of cash flows attributable to highly probable forecast transactions;
- Fair value hedge in case of hedge of the exposure attributable to recognised assets, liabilities or firm commitments;
- Hedge of net investment in foreign subsidiaries.

- Cash flow hedge

When cash flow hedge accounting applies, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the forecast transaction results in the recognition of a monetary item, the amounts previously recognised directly in equity are reclassified to the income statement.

- Fair value hedge

When fair value hedge accounting applies, changes in the fair value of derivatives and changes in the fair value of hedged items are both recognised in the income statement and offset each other, up to the effective portion of the gain or loss on the hedging instrument.

- Hedge of net investment in foreign subsidiaries

In this situation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity as “foreign currency translation adjustment”. This amount is reclassified to the income statement on disposal of the investment.

Whatever the type of hedge, the ineffective portion of the hedging instrument is recognised in the income statement.

Realised and unrealised exchange gains and losses on hedged items and hedging instruments are recorded within income from operations when they relate to operating activities or within financial income or expense when they relate to financing activities.

Sales and costs resulting from commercial contracts are recognised at spot rate at inception of hedge throughout the life of the related commercial contracts, provided that the corresponding hedging relationships keep on qualifying for hedge accounting.

The Group also uses export insurance contracts to hedge its currency exposure on certain long-term contracts during the open bid as well as after the award of the contracts. During the bid period, such insurance contracts are not remeasured on the balance sheet. If the commercial contract is awarded, insurance contracts are accounted for using a similar treatment as forward foreign currency exchange contracts.

(i) Goodwill

Goodwill represents the excess of the cost of acquisition over the interest in the fair values of assets, liabilities and contingent liabilities acquired in a business combination. Initial estimates of fair values are finalised within twelve months after the date of acquisition and any adjustments in these fair values are accounted for as retroactive adjustments to goodwill. Beyond this twelve month period, any adjustment is directly recognised in the income statement.

Goodwill is not amortised but tested for impairment at least annually during the second half of the year (see note 3-l).

(j) Intangible assets

Intangible assets include acquired intangible assets (such as technology, licensing agreements) and internally generated intangible assets (mainly development costs).

Acquired intangible assets
Acquired intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. These acquired intangible assets are amortised on the straight-line basis over a period which can extend to twenty years due to the long-term nature of the contracts and activities involved. The depreciation expense is recorded in cost of sales, research and development expenses, selling expenses or administrative expenses, based on the function of the underlying assets.

Internally generated intangible assets
Research expenses are expensed as incurred. Development costs are expensed as incurred unless the project they relate to meets the following criteria for capitalisation:

- The project is clearly defined and its related costs are separately identified and reliably measured,
- The technical feasibility of the project is demonstrated,
- The intention exists to complete the project and to use or sell it,
- Adequate financial resources are available to complete the project,
- It is probable that the future economic benefits attributable to the project will flow to the Group.

Development costs capitalised are amortised on a straight-line basis over the estimated useful life of the development asset. The amortisation charge is reported in research and development expenses.

(k) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

When an item of property, plant and equipment is made up of components with different useful lives, the total cost is allocated between the various components which are then separately depreciated.

Depreciation is computed using the straight-line method over the estimated useful lives of each component. The useful lives most commonly used are the following:

	Estimated useful life in years
Buildings	15-30
Machinery and equipment	7-12
Tools, furniture, fixtures and others	3-7

Useful lives are reviewed on a regular basis and changes in estimates, when relevant, are accounted for on a prospective basis.

The depreciation expense is recorded in cost of sales, research and development expenses, selling expenses or administrative expenses, based on the function of the underlying assets.

Property, plant and equipment acquired through finance lease arrangements or long-term rental arrangements that transfer substantially all risks and rewards incidental to ownership are capitalised. They are recognised at their fair value at the inception of the lease, or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a financing obligation. Lease payments are apportioned between finance charges and reduction in the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Leases that do not transfer substantially all risks and rewards incidental to ownership are classified as operating leases. Rentals payable are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(l) Impairment of goodwill, tangible and intangible assets

Goodwill, intangible assets having an indefinite useful life and intangible assets not yet available for use are tested for impairment annually or when there are indications that they may be impaired.

Tangible and intangible assets having a definite useful life are tested for impairment only if there are indications of impairment.

The impairment test methodology is based on a comparison between the recoverable value of each asset with its net carrying value. The recoverable amount is the higher of fair value less costs to sell and value in use. The recoverable value of an asset is individually assessed unless the asset does not generate cash inflows independent of those from other assets or groups of assets. These groups of assets are designated as cash-generating units.

With respect to goodwill and internally generated or acquired technology, the identified cash generating units are the reportable segments as detailed in Note 23.

The valuation performed is based upon the Group's internal three-year business plan prepared as part of its annual budget exercise at Sector level. Cash flows beyond this period are estimated using a steady or declining growth rate for the subsequent years. The recoverable amount is the sum of the discounted cash flows and of the discounted terminal residual value. Discount rates are determined using the weighted average cost of capital of each Sector.

Recoverable values are significantly impacted by estimates of future prices of products and services, the evolution of costs, economic trends in the local and international sector, the expectations on long-term development of emerging markets and other factors. They also depend on the discount rates and perpetual growth rates used.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount and the impairment loss is recognised immediately in the income statement.

In case of impairment loss attributable to a cash-generating unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other non current assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The impairment loss is immediately recognised in the income statement.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

When an impairment loss not allocated to goodwill subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

(m) Financial assets

Financial assets include loans and deposits, investments, debt securities, derivative financial instruments with a positive marked to market and receivables.

- Loans and deposits

Loans are initially measured at their fair value, plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method.
Deposits are reported as other non current assets or other current financial assets when their initial maturity is more than three months; they are presented as cash and cash equivalents in case of demand deposits or when the initial maturity is less than three months.
If there is any indication that those assets may be impaired, they are reviewed for impairment. Any difference between the carrying value and the impaired value (net realisable value) is recorded as a financial expense. The

impairment loss can be reversed if the value is recovered in the future. In that case, the reversal of the impairment loss is reported as a financial income.

- Investments and debt securities

Investments in non-consolidated companies are designated as available-for-sale financial assets under IAS 39 classification. They are initially measured at their fair value, plus directly attributable transaction costs and subsequently measured at fair value.
The fair value of listed securities corresponds to the market value at the balance sheet date. A valuation model is used in case of unlisted securities. Changes in fair value are directly recognised in shareholders' equity until the security is disposed of or is determined to be impaired. On disposal or in case of significant or prolonged decline in the fair value, the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit and loss for an investment in an equity instrument are not reversed through profit and loss. Conversely, if, in a subsequent period, the fair value of an investment in a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in profit or loss, the impairment loss is reversed with the amount of the reversal recognised in profit or loss.
Investments in non consolidated companies, whose fair value cannot be determined reliably, are measured at cost. Any impairment loss recognised for such investment is not reversed in a subsequent period, except when disposed of.

All debt securities that the Group has the expressed intention and ability to hold to maturity are designated as held-to-maturity financial assets under IAS 39 classification. They are therefore measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect amounts expected not to be recoverable. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between the investment's carrying value and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed through profit and loss in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised.

Marketable securities are assets held for trading which cannot be considered as cash and cash equivalents (see Note 3o). They are designated as financial asset at fair value through profit or loss under IAS 39 classification. Changes in fair value are therefore reported as financial income or expense.

- Derivative financial instruments

Derivative financial instruments are recognised and re-measured at fair value (see Note 3h for foreign currency hedging instruments and Note 3s for interest rate hedging instruments).

- Receivables

Receivables are recognised at fair value, which in most cases is represented by the nominal value. If there is any indication that those assets may be impaired, they are reviewed for impairment. Any difference between the carrying value and the impaired value (net realisable value) is recorded within income from operations. The impairment loss can be reversed if the value is recovered in the future. In that case, the reversal of the impairment loss is reported within income from operations.

(n) Inventories

Raw materials and supplies, work in progress and finished products are stated at the lower of cost, using the weighted average cost method, or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory cost comprises direct material and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their existing location and condition.

(o) Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

(p) Taxation

Deferred taxes are calculated for each taxable entity for temporary differences arising between the tax value and book value of assets and liabilities, unused tax loss carryforwards and unused tax credits. Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of taxable temporary differences arising on investments in subsidiaries and associates, and investments in joint ventures which are not considered when the Group is able to control their reversal and it is probable that these temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

For interim consolidated financial statements purposes, the income tax charge or credit (current and deferred) is calculated by applying the estimated effective annual tax rate for the year under review to the pre-tax income for the period for each entity or tax grouping.

(q) Provisions

As long as a construction contract or a long term service agreement is in progress, obligations attributable to such a contract are taken into account in the assessment of the margin at completion and are therefore reported within the accounts " Construction contracts in progress, assets" or " Construction contracts in progress, liabilities".
At completion date, such obligations are recognised as distinct liabilities when they satisfy the following criteria:

- the Group has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of economic resources will be required to settle the obligation;
- and such outflow can be reliably estimated.

These liabilities are presented as provisions when they are of uncertain timing or amount. When this uncertainty is dispelled, they are presented as trade payables or other current liabilities.

Obligations resulting from transactions other than construction contracts and long-term service agreements are directly recognised as provisions as soon as the criteria above described are met.

Where the effect of the time value of money is material, provisions are measured at their present value.

Restructuring provisions are accrued when a reduction or a closure of facilities, or a program to reduce the workforce is announced and when management is committed with the concerned employees and when related costs are determined. Such provisions include employees' severance and termination benefits and estimated facility closing costs. In addition to such provisions, restructuring costs can include write-off of assets related to the concerned activities.

(r) Financial liabilities

Financial liabilities include bonds and borrowings, derivative financial instruments with a negative marked to market and payables.

- Bonds and borrowings

Bonds and interest-bearing bank loans are initially recognised at fair value, less any transaction costs directly attributable to the issuance of the liability. Bond issuance costs and premiums are not included in the initial cost, but are taken into account in calculating amortised cost under the effective interest rate method. These financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

Renegotiations of the terms of borrowings and similar operations are recorded as an extinction of the former liability with recognition of a new liability only if there are substantial differences between the old and new terms. When this is the case, costs borne for renegotiation are included in the financial expenses for the period when the negotiation took place, as a component of the gain or loss on extinction of the former liability.

Certain financial instruments (such as bonds reimbursable with shares) include both a financial debt component and a shareholders' equity component. Those components are classified separately as financial debt and equity instruments.
The measurement of the debt component at date of issuance is represented by the present value of future cash flows for a similar instrument with the same conditions (maturity, cash flows), but without an option or an obligation for conversion or redemption in shares. This liability is subsequently re-measured at amortised cost, using the effective interest rate.
The equity component is the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component.

- Derivative financial instruments

Derivative financial instruments are recognised and re-measured at fair value (see Note 3h for foreign currency hedging instruments and Note 3s for interest rate hedging instruments).

- Payables

Payables are recognised at fair value, which in most cases is represented by the nominal value.

(s) Interest rate derivatives

The Group may enter into hedges for the purposes of managing its exposure to movements in interest rates. Derivatives are recognised on the balance sheet at fair value at the closing date.
Providing that the relationships between the interest rate exposures and the related derivatives are qualifying relationships, the Group uses the specific accounting treatments designated as hedge accounting.
Fair value or cash flow hedge accounting is applied to fixed and floating rate borrowings respectively.

In the case of fair value hedge relationships, the re-measurement of the fixed rate borrowing is offset in the income statement by the movement in the fair value of the derivative.
In the case of cash flow hedge relationships, the change in fair value of the derivative is recognised directly in equity. When the forecast transaction results in the recognition of a monetary item, the amounts previously recognised directly in equity are reclassified to the income statement.

(t) Share-based payments

The Group issues equity-settled and cash-settled share-based payments to certain employees.

- Equity-settled share-based payments

Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non market-based conditions) using the binomial pricing model. The cumulative recognised expense is based on the fair value at grant date and on the estimated number of shares that will eventually vest (including the effect of non market-based vesting conditions). It is recorded in income from operations throughout the vesting period with a counterpart in equity.

In accordance with IFRS 2, only options granted after 7 November 2002 and not fully vested at 1 January 2005 are measured and accounted for as employee costs.

- Cash-settled share-based payments

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date.

The Group may also provide employees with the ability to purchase the Group's ordinary shares at a discount to the current market value. In that case, the Group records an expense, based on its estimate of the discount related to shares expected to vest.

(u) Post-employment and other long-term benefits

The Group provides various types of post-employment and other long-term benefits to its employees including post-retirement medical benefits to a number of retired employees in certain countries principally in the United States. The type of benefits offered to an individual employee is related to local legal requirements as well as operating practices of the specific subsidiaries.

Defined benefit plans

For single employer defined benefit plans, the Group uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current and past service costs. This method considers best estimate actuarial assumptions including the probable future length of the employees' service, the employees' final pay, the expected average life span and probable turnover of beneficiaries.

Most defined benefit pension liabilities are funded through separate pension funds. Pension plan assets related to funded plans are invested mainly in equity and debt securities. Other supplemental defined benefit pension plans sponsored by the Group for certain employees are funded from the Group's assets as they become due. Post-retirement medical benefits plans are predominantly unfunded.

The Group reviews annually for each year-end plan obligations and assets. The effects of any change in actuarial assumptions together with the differences between actual and expected returns on assets are assessed. If this cumulative difference exceeds 10% of the greater of the defined benefit obligations or the market value of plan assets, the unrecognised gains/losses in excess are amortised over the average remaining service life of active employees (corridor method).

The Group also participates in multi-employer defined benefit plans, which are accounted for as defined contribution plans (see below), mainly in the United States and in Canada.

Defined contribution plans

For defined contribution plans, the Group pays contributions to independently administered funds at a fixed percentage of employees' pay. These contributions are recorded as operating expenses and included in the total pension benefit expense.

Other long-term benefits

The Group also provides employee benefits that are considered as other long-term employee benefits such as jubilee awards and deferred compensation schemes. The accounting method is similar to the method used for defined benefits, except that the corridor method is not applied; prior service cost and actuarial gains/losses are therefore recognised immediately in the period in which they occur.

Regarding defined benefit plans and other long-term benefits, the estimated cost of providing benefits to employees is accrued during the years in which the employees render services. In the income statement, the service cost element of pension benefit costs is included in the income from operations. The amortisation of actuarial net loss (gain) as well as unrecognised prior service cost and the impacts of curtailments and settlements are recognised in other expenses. Financial elements of the benefit cost such as interest cost and asset returns are included in financial income (expenses).

(v) Assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amount is expected to be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell and are not amortised or depreciated anymore.

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Amounts included in the income statement and cash flow statement related to these discontinued operations are presented separately for the current year and all prior years presented in the financial statements if they are material.

(w) Earnings per share

Basic earnings per share are computed by dividing the period net profit (loss) before the financial cost (net of tax) of bonds reimbursable with shares, by the weighted average number of outstanding shares during the period, increased by the weighted average number of bonds reimbursable with shares to be converted.

Diluted earnings per share are computed by dividing the period net profit (loss) before the financial cost (net of tax) of bonds reimbursable with shares, by the weighted average number of outstanding shares during the period, increased by the weighted average number of bonds reimbursable with shares to be converted and by the effect of any other dilutive instruments.

(x) Borrowing costs

The Group does not capitalise interest expense directly attributable to the acquisition, construction or production of a qualifying asset. Therefore, borrowing costs are recognised as an expense in the period in which they are incurred.

(y) Exchange rates used for the translation of main currencies

	At 30 September 2006		**At 30 September 2005**		**At 31 March 2006**	
€for 1 monetary unit	**Average**	**Closing**	**Average**	**Closing**	**Average**	**Closing**
British pound	1.460618	1.475579	1.469602	1.466383	1.465784	1.435956
Swiss franc	0.636084	0.629683	0.645890	0.642632	0.643819	0.632871
US dollar	0.785444	0.789889	0.814483	0.830427	0.825792	0.826173
Brazilian real	0.361242	0.361853	0.342997	0.374042	0.360145	0.377223
Canadian dollar	0.705511	0.707414	0.667341	0.711086	0.694713	0.710026
Australian dollar	0.593288	0.588512	0.619802	0.631792	0.618726	0.588339

Note 4 – Changes in consolidated companies

Main changes in the scope of consolidated companies for the half-year ended 30 September 2006 are the following:

On 31 May 2006, the sale of 75% interest in the Marine Sector to Aker Yards was completed and this Sector was deconsolidated from that date. The sale took place through the creation of a new company comprising the shipyards in Saint-Nazaire and Lorient, 75% of which is owned by Aker Yards and 25% by ALSTOM. At 30 September 2006, this 25% interest is accounted for in investments. The remaining stake held by the Group will be sold to Aker Yards by 2010 through a put and call agreement, at a price depending on the financial performance.

On 24 October 2005, ALSTOM and Austrian Energy and Environment AG signed binding agreements for the sale of the Industrial Boilers business, part of Power Turbo-Systems / Power Environment Sector. On 31 May 2006, the sale of this business in Germany and Czech Republic was completed and these activities have been deconsolidated from that date.

Note 5 – Research and development expenses

(in € million)	Half-year ended 30 September 2006	Half-year ended 30 September 2005	Year ended 31 March 2006
Research and development expenses	**(205)**	**(162)**	**(364)**
of which			
- Capitalisation of developments costs (see Note 11)	42	46	87
- Amortisation of development costs (See Note 11)	(24)	(23)	(43)
- Amortisation of acquired technology	(30)	(26)	(59)
Research and development expenses before capitalisation and amortisation	**(193)**	**(159)**	**(349)**

Note 6 – Other income and other expenses

(in € million)	Half-year ended 30 September 2006	Half-year ended 30 September 2005	Year ended 31 March 2006
Capital gain on disposal of investments/activities (1)	18	148	221
Capital gain on disposal of intangible and tangible assets	-	-	12
Other	-	4	-
Other income	**18**	**152**	**233**
Capital loss on disposal of investments/activities (1)	(8)	(25)	(89)
Capital loss on disposal of intangible and tangible assets	-	(3)	-
Restructuring costs (2)	(17)	(36)	(80)
Pension costs (3)	(33)	(31)	(61)
Other	(1)	(15)	(22)
Other expenses	**(59)**	**(110)**	**(252)**

(1) In the half-year ended 30 September 2006, the capital gain mainly relates to the disposal of the Industrial Boilers business in Germany and Czech Republic. The capital loss includes costs incurred and accruals on past disposals. The €44 million of net cash paid in the consolidated statement of cash flows mainly consist of €27 net cash paid related to the disposal of Transport activities in Australia and New Zealand (of which €18 million cash received with respect to the price adjustment at completion, balanced by €45 million tax paid) and €20 million cash paid for claim adjustments on past disposals.
In the half-year ended 30 September 2005, the capital gain mainly related to the disposal of Transport activities in Australia and New Zealand. The capital loss related to the disposal of former T&D Indian units and the FlowSystems business. The €280 million of net proceeds in the consolidated statement of cash flows mainly consisted of €165 million proceeds related to the disposal of Transport activities in Australia and New Zealand and €63 million of reimbursement of the escrow account retained at 31 March 2005.
In the year ended 31 March 2006, the capital gain mainly related to the disposal of Transport activities in Australia and New Zealand, the sale of the Power Conversion activities and the sale of the Industrial Boilers Business in Australia. The capital loss related to the disposal of former T&D Indian units and the FlowSystems business. It also included costs incurred or accruals and claim adjustments on past disposals. The €257 million of net proceeds in the consolidated statement of cash flows mainly consisted of €150 million net proceeds related to the disposal of Transport activities in Australia and New Zealand, €34 million of net proceeds from the disposal of Power Conversion activities and €63 million of reimbursement of the escrow account related to the former Industrial Turbines business retained at 31 March 2005

(2) In the half-years ended 30 September 2006 and 30 September 2005 as well as in the year ended 31 March 2006, restructuring costs related to minor plans. They included respectively €2 million and €7million write-off of assets at 30 September 2005 and 31 March 2006.

(3) Amortisation of actuarial gains and losses and unrecognised prior service cost, plus curtailments and settlements - See Note 19 “Retirement and post-retirement benefits”.

Note 7 – Financial income (expenses)

(in € million)	Half-year ended 30 September 2006	Half-year ended 30 September 2005	Year ended 31 March 2006
Net interest expenses (1)	(33)	(74)	(122)
Securitisation expenses	-	(6)	(7)
Foreign currency gain (loss)	(15)	12	30
Pension costs (see Note 19)	(4)	(9)	(15)
Other financial income (expenses) (2)	(9)	(13)	(108)
Financial income (expenses)	**(61)**	**(90)**	**(222)**

(1) Of which interests related to obligations under finance leases of €7 million and €6 million for the half-year ended 30 September 2006 and 30 September 2005 respectively and €14 million for the year ended 31 March 2006.

(2) Other financial income (expenses) included fees and commitment fees paid on guarantees, syndicated loans and other financing facilities of €7 million for the half-year ended 30 September 2006 and €75 million for the year ended 31 March 2006.

Note 8 – Taxation

(a) Analysis by nature

(in € million)	Half-year ended 30 September 2006	Half-year ended 30 September 2005	Year ended 31 March 2006
Current income tax charge	(92)	(90)	(155)
Deferred income tax credit	14	15	30
Income tax charge	**(78)**	**(75)**	**(125)**
Effective tax rate	**26.3%**	**34.9%**	**40.7%**

(b) Effective income tax rate

The effective income tax rate can be analysed as follows:

(in € million)	Half-year ended 30 September 2006	%	Half-year ended 30 September 2005	%	Year ended 31 March 2006	%
Pre-tax income from continuing operations	**311**		**322**		**505**	
Pre-tax loss from discontinued operations	**(15)**		**(107)**		**(198)**	
Statutory income tax rate of the parent company	34.43%		34.43%		34.43%	
Expected tax charge	**(102)**	**34.43%**	**(74)**	**34.43%**	**(106)**	**34.43%**
Impact of :						
- difference in rate of taxation	32	(10.8)	23	(10.7)	45	(14.7)
- non recognition of deferred tax assets and change in estimate of tax assets and liabilities	15	(5.1)	20	(9.3)	(18)	5.9
- tax rate change impact on deferred tax asset opening balance	-	-	(15)	7.0	(14)	4.6
- other permanent differences	(23)	7.8	(29)	13.5	(32)	10.4
Income tax charge - Effective tax rate	**(78)**	**26.3%**	**(75)**	**34.9%**	**(125)**	**40.7%**

The Group consolidates most of its country operations for tax purposes, including France, the United Kingdom, the United States and Germany.

(c) Deferred taxation

The deferred tax assets and liabilities are made up as follows:

(in € million)	**At 31 March 2006**	**Deferred income tax (charge) credit**	**Changes in scope of consolidation**	**Translation Adjustments and other changes**	**At 30 September 2006**
Accelerated depreciation	82	2	-	1	85
Intangible assets	314	(23)	-	(2)	289
Profit sharing, annual leave and pension accrual not yet deductible	102	(12)	-	(2)	88
Provisions and other expenses not currently deductible	566	55	-	6	627
Contract revenue recognition	50	(1)	-	-	49
Tax loss carry forwards	1 475	140	(3)	(15)	1 597
Other	207	(23)	-	(4)	180
Total gross deferred tax assets	**2 796**	**138**	**(3)**	**(16)**	**2 915**
Unrecognised deferred tax assets	**(919)**	**(120)**	**4**	**-**	**(1 035)**
Netting by legal entity or tax grouping	**(628)**	**49**	**-**	**-**	**(579)**
Deferred tax assets	**1 249**	**67**	**1**	**(16)**	**1 301**
Gross deferred tax liabilities	**(667)**	**(4)**	**-**	**1**	**(670)**
Netting by legal entity or tax grouping	**628**	**(49)**	**-**	**-**	**579**
Deferred tax liabilities	**(39)**	**(53)**	**-**	**1**	**(91)**
Net deferred assets	**1 210**	**14**	**1**	**(15)**	**1 210**

The Group was satisfied as to the recoverability of the deferred tax assets, net at 31 March 2006 of €1,210 million, on the basis of an extrapolation of the three-year business plan, approved by the Board of Directors, which showed a capacity to generate a sufficient level of taxable profits to recover its net tax loss carry forward and other net timing differences over a period of four to twelve years, this reflecting the long-term nature of the Group's operations.

At 30 September 2006, the Group considers that the basis on which it concluded on the recoverability of the deferred tax assets at 31 March 2006 remains unchanged. As every year, the Group will prepare a new three-year plan in the fourth quarter of the financial year. This plan will be available before 31 March 2007; a detailed review of the recoverability of deferred tax assets will be conducted when preparing the financial statements for the year ended 31 March 2007.

Note 9 – Discontinued operations

The activities of the former Marine Sector have been classified as discontinued operations in the year ended 31 March 2006 and retrospectively in the half-year ended 30 September 2005.
For the half-year ended 30 September 2006, the transactions result in the progressive extinction of remaining assets and liabilities of the former Marine Sector which have been retained by the Group (see Note 22).

They are analysed as follows:

	Half-year ended 30 September		Year ended 31 March
(in € million)	**2006**	**2005**	**2006**
Sales	**230**	**159**	**439**
Cost of sales	(240)	(169)	(434)
Selling expenses	(4)	(6)	(10)
Research and development expenses	3	(1)	(3)
Administrative expenses	(2)	(6)	(7)
Loss from operations	**(13)**	**(23)**	**(15)**
Other income (expenses)	(2)	(86)	(187)
Loss before interest and taxes	**(15)**	**(109)**	**(202)**
Financial income (expenses), net	-	2	4
Pre-tax loss	**(15)**	**(107)**	**(198)**
Income tax charge (1)	-	-	-
Net loss	**(15)**	**(107)**	**(198)**

(1) Related income tax effects have not been presented as discontinued operations since companies included in the former Marine Sector are part of the French tax grouping.

The cash flow statement of the discontinued operations is detailed as follows:

	Half-year ended 30 September		Year ended 31 March
(in € million)	**2006**	**2005**	**2006**
Net cash used in operating activities	(208)	(241)	(199)
Net cash provided by (used in) investing activities	(196)	(3)	84
Net cash provided by (used in) financing activities	-	(8)	(103)
Net effect of exchange rate	-	(2)	(2)
Other changes	(2)	4	5
Decrease in cash and cash equivalents	**(406)**	**(250)**	**(215)**
Net cash (net debt) at the beginning of the period	**317**	**532**	**532**
Net cash (net debt) at the end of the period	**(89)**	**282**	**317**

For the half-year ended 30 September 2006, the €196 million net cash used in investing activities relates to the disposal of Marine activities and includes the selling price, the cash contribution and other financing provided by the Group to the newly created company.

Note 10 – Earnings per share

(a) From continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable to Group share is based on the following data:

	Half-year ended 30 September		**Year ended 31 March**
	2006	**2005**	**2006**
Earnings *(in € million)*			
Net profit - Group share	**227**	**136**	**178**
- Financial interests related to bonds reimbursable with shares, net of tax	(2)	-	1
Earnings for the purposes of basic and diluted earnings per share	**225**	**136**	**179**
Number of shares			
Weighted average number of ordinary shares, including bonds reimbursable with shares to be converted, for the purposes of basic earnings per share	**140 402 108**	**140 402 977**	**140 401 599**
Effect of other dilutive potential ordinary shares:			
- Stock options (1)	2 509 315	790 083	1 434 534
- Free shares	600 000	-	225 000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**143 511 423**	**141 193 060**	**142 061 133**

(1) Stock options taken into account for the calculation of the dilutive earnings per share only relate to plans 7 and 8 (see Note 26), the other plans being out of the money.

(b) From continuing operations

	Half-year ended 30 September		**Year ended 31 March**
(in € million)	**2006**	**2005**	**2006**
Earnings for the purposes of basic and diluted earnings per share	225	136	179
Less: loss for the period from discontinued operations	15	107	198
Earnings for the purposes of basic and diluted earnings per share from continuing operations	**240**	**243**	**377**

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

(c) From discontinued operations

For the half-year ended 30 September 2006, basic earnings per share for the discontinued operations is €(0.11) per share (€(0.76) per share for the half-year ended 30 September 2005 and €(1.41) per share for the year ended 31 March 2006) and diluted earnings per share for the discontinued operations is €(0.10) per share (€(0.76) per share for the half-year ended 30 September 2005 and €(1.39) per share for the year ended 31 March 2006), based on the loss from discontinued operations of €15 million (€107 million for the half-year ended 30 September 2005 and €198 million for the year ended 31 March 2006) and the denominators detailed above for the basic and diluted earnings per share.

Note 11 – Goodwill and intangible assets, net

(a) Goodwill

(in € million)	**Net value at 31 March 2006**	**Acquisitions/ Disposals**	**Impairment**	**Translation adjustments and other changes**	**Net value at 30 September 2006**
Power Turbo-Systems/ Power Environment	804	(6)	-	-	798
Power Service	1 992	1	-	-	1 993
Transport	527	-	-	(1)	526
Goodwill	**3 323**	**(5)**	**-**	**(1)**	**3 317**
of which					
Gross value	3 323	(5)	-	(1)	3 317
Impairment	-	-	-	-	-

At 31 March 2006, the Group requested a third party expert to provide an independent report as part of its annual impairment test for goodwill. This test compared the fair value of each Sector to its carrying amount. The valuation supported the Group’s opinion that goodwill was not impaired.

(b) Intangible assets, net

(in € million)	**Capitalised development costs**	**Acquired Intangible assets**	**Total**
Cost			
At 31 March 2006	**510**	**1 221**	**1 731**
Additions / Disposals	42	(1)	41
Translation adjustments and other changes	1	12	13
At 30 September 2006	**553**	**1 232**	**1 785**
Amortisation			
At 31 March 2006	**(175)**	**(359)**	**(534)**
Additions / Reductions	(24)	(31)	(55)
Translation adjustments and other changes	(2)	(9)	(11)
At 30 September 2006	**(201)**	**(399)**	**(600)**
Carrying amount			
At 31 March 2006	**335**	**862**	**1 197**
At 30 September 2006	**352**	**833**	**1 185**

Acquired intangible assets mainly result from the allocation of the purchase price following the acquisition of ABB's 50% shareholding in Power. They are representative of technology and licensing agreements.

At 30 September 2006, the Group has concluded that no triggering events have occurred that would lead to impairment testing.

Note 12 – Property, plant and equipment, net

(in € million)	At 31 March 2006	Acquisitions/ Depreciation/ Impairments	Disposals	Changes in scope of consolidation	Translation adjustments and other changes	At 30 September 2006
Land	113	4	-	12	(1)	128
Buildings	1 173	5	(64)	38	(8)	1 144
Machinery and equipment	1 898	45	(32)	(14)	(11)	1 886
Tools, furniture, fixtures and other	551	38	(8)	(14)	(4)	563
Gross value	**3 735**	**92**	**(104)**	**22**	**(24)**	**3 721**
Land	(5)	(1)	-	-	-	(6)
Buildings	(527)	(21)	53	(41)	3	(533)
Machinery and equipment	(1 460)	(54)	30	18	8	(1 458)
Tools, furniture, fixtures and other	(382)	(21)	7	(3)	3	(396)
Accumulated depreciation and impairment	**(2 374)**	**(97)**	**90**	**(26)**	**14**	**(2 393)**
Land	108	3	-	12	(1)	122
Buildings	646	(16)	(11)	(3)	(5)	611
Machinery and equipment	438	(9)	(2)	4	(3)	428
Tools, furniture, fixtures and other	169	17	(1)	(17)	(1)	167
Net value	**1 361**	**(5)**	**(14)**	**(4)**	**(10)**	**1 328**

At 30 September 2006 and 31 March 2006, net values of finance leased assets by nature included in the net value of property, plant and equipment, net above are as follows:

(in € million)	At 30 September 2006	At 31 March 2006
Land	13	-
Buildings	147	169
Machinery and equipment	20	22
Tools, furniture, fixtures and other	15	18
Net value of finance leases	**195**	**209**

Note 13 – Other non-current assets, net

(in € million)	**At 30 September 2006**	**At 31 March 2006**
Deposit securing the Bonding Guarantee Facility (1)	700	700
Other long term loans and deposits	98	91
Pension assets (see Note 19)	417	387
Other	99	72
Other non-current assets, net	**1 314**	**1 250**

(1) It corresponds to a cash deposit made by the Group with a third party Trustee to secure in the form of remunerated collateral the €10.5 billion Bonding Guarantee Facility Programme implemented during the year ended 31 March 2005 (see Note 24 (a) (1)) and invested by the Trustee into euro government bonds and/or central bank securities with a residual maturity of less than 12 months. This deposit is part of the "initial security package" which secures instruments issued until 27 July 2006 and amortises over time in due proportion of the release of the underlying instruments.

Note 14 – Construction contracts in progress, net

(in € million)	**At 30 September 2006**	**At 31 March 2006**
Construction contracts in progress, assets	2 611	2 229
Construction contracts in progress, liabilities	(6 300)	(5 401)
Construction contracts in progress, net	**(3 689)**	**(3 172)**
Contract costs incurred plus recognised profits less recognised losses to date	34 593	32 593
Less progress billings	(35 988)	(33 640)
Construction contracts in progress before advances received from customers	***(1 395)***	***(1 047)***
Advances received from customers	(2 294)	(2 125)
Construction contracts in progress, net	**(3 689)**	**(3 172)**

Note 15 – Other current assets related to operating activities, net

(in € million)	**At 30 September 2006**	**At 31 March 2006**
Advances paid to suppliers	359	360
Corporate income tax	48	122
Other tax	340	335
Prepaid expenses	139	127
Other receivables	349	312
Derivatives relating to operating activities	119	135
Remeasurement of off balance sheet commitments	67	63
Other current assets related to operating activities, net	**1 421**	**1 454**

Note 16 – Marketable securities and other current financial assets, net

(in € million)	**At 30 September 2006**	**At 31 March 2006**
Derivatives related to financing activities	2	-
Available-for-sale investments	2	16
Held-to-maturity securities	21	6
Marketable securities	160	-
Marketable securities and other current financial assets, net	**185**	**22**

Marketable securities of €160 million have a daily liquidity. They mainly correspond to the €143 million increase in other non-current assets, marketable and other current financial assets in the consolidated statement of cash flows as at 30 September 2006.

For the purpose of the calculation of the net financial debt, marketable securities and other current financial assets together with cash and cash equivalents are shown as a reduction of the financial debt, given their short-term and highly liquid nature.

Note 17 – Working Capital

(in € million)	At 30 September 2006	At 31 March 2006	Variation
Inventories, net	1 689	1 488	201
Construction contracts in progress, assets	2 611	2 229	382
Trade receivables, net	2 256	2 291	(35)
Other current assets net related to operating activities	1 421	1 454	(33)
Working capital (assets)	**7 977**	**7 462**	**515**
Non-current provisions	528	581	(53)
Current provisions	1 563	1 539	24
Contruction contracts in progress, liabilities	6 300	5 401	899
Trade payables	2 905	2 872	33
Other current liabilities	1 654	1 630	24
Working capital (liabilities)	**12 950**	**12 023**	**927**
Net working capital	**(4 973)**	**(4 561)**	**(412)**
Net working capital at 31 March 2006	**(4 561)**		
Changes in net working capital resulting from operating activities (1)	(486)		
Changes in net working capital resulting from disposals of activities (2)	61		
Translation adjustments and other changes	13		
Total changes in net working capital	**(412)**		
Net working capital at 30 September 2006	**(4 973)**		

(1) Amount disclosed as changes in net working capital in the consolidated statement of cash flows
(2) Changes in items of working capital resulting from disposals of activities are included in the amount disclosed in the consolidated statement of cash flows as “Cash proceeds from sale of investments, net of net cash sold”

Note 18 – Provisions

(in € million)	At 31 March 2006	Addition	Releases	Applied	Translation adjustments and other	At 30 September 2006
Warranties	538	114	(33)	(55)	(58)	506
Litigation and claims	1 001	271	(143)	(102)	30	1 057
Current provisions	**1 539**	**385**	**(176)**	**(157)**	**(28)**	**1 563**
Tax risks and litigation	41	5	(1)	(4)	1	42
Restructuring	262	8	(5)	(43)	(7)	215
Other provisions non-current	278	37	(14)	(30)	-	271
Non-current provisions	**581**	**50**	**(20)**	**(77)**	**(6)**	**528**
Total Provisions	**2 120**	**435**	**(196)**	**(234)**	**(34)**	**2 091**

Note 19 – Retirement and post-retirement benefits

The balance sheet position of these liabilities and assets, which are predominantly long-term, are presented below:

(in € million)	At 30 September 2006	At 31 March 2006
Accrued pension and retirement benefits	(793)	(792)
Pension assets (see Note 13)	417	387
Net (accrued) prepaid benefit cost	**(376)**	**(405)**

At 30 September 2006, cumulative unrecognised actuarial losses to be amortised amount to €1 013 million (€1 050 million at 31 March 2006).

The breakdown of the benefit expense in the consolidated income statement is as follows:

(in € million)	At 30 September 2006	At 31 March 2006
Service cost	(44)	(85)
Multi-employer contributions and defined contributions	(57)	(90)
Income from operations	**(101)**	**(175)**
Amortisation of actuarial net loss	(33)	(68)
Amortisation of unrecognised past service cost	1	3
Impact of asset ceiling	(1)	(2)
Curtailments/Settlements	-	6
Other income (expenses) - see Note 6	**(33)**	**(61)**
Interest cost	(105)	(215)
Expected return on plan assets	101	200
Financial income (expenses) - see Note 7	**(4)**	**(15)**
Total benefit expense	**(138)**	**(251)**

As part of the pension funding agreement currently in place in the United Kingdom, the Group has provided a parent company guarantee to the pension trust of GBP450 millions (€664 millions) which will extend until 2009.

Note 20 – Financial Debt

(a) Analysis by nature

(in € million)	**At 30 September 2006**	**At 31 March 2006**
Bonds reimbursable with shares (debt component)	5	5
Subordinated notes (1)	-	5
Bonds (1)	1 963	2 189
Other borrowing facilities (2)	14	106
Derivatives relating to financing activities	6	-
Accrued interests	58	33
Borrowings	**2 046**	**2 338**
Non current	*2 028*	*2 018*
Current	*18*	*320*
Obligations under finance leases	**205**	**233**
Non current	*183*	*193*
Current	*22*	*40*
Total Financial debt	**2 251**	**2 571**

(1) During the year ended 31 March 2006, the Group issued:

- floating rate notes bearing a 2.20% above the 3 month Euribor coupon and redeemable at par in March 2009 for a nominal value of €600 million;
- floating rates notes bearing 0.85% above the 3 month Euribor coupon redeemable at par in July 2008 for a nominal value of €400 million.

At 31 March 2006, remaining subordinated notes and bonds, measured at amortised cost, were as follows:

- €5 million of Auction Rate Notes redeemable in September 2006,
- €226 million of bonds redeemable on 26 July 2006,
- €969 million of bonds redeemable on 3 March 2010,
- €595 million of bonds redeemable on 13 March 2009,
- €399 million of bonds redeemable on 28 July 2008,

During the six-month ended 30 September 2006:

- €5 million of Auction Rate Notes were redeemed in September 2006,
- €226 million of bonds were redeemed on 26 July 2006;

At 30 September 2006, remaining bonds, measured at amortised cost, are as follows:

- €969 million of bonds redeemable on 3 March 2010,
- €595 million of bonds redeemable on 13 March 2009,
- €399 million of bonds redeemable on 28 July 2008.

At 30 September 2006, the Group holds two swaps of €100 million each that exchange fixed rate to floating rate.

(2) At 30 September 2006, the €89 million current borrowings allocated to liabilities directly associated with assets held for sale are deducted from other borrowings facilities (see Note 22).

(b) *Financial covenants*

On 28 February 2006, a 2010 Revolving Credit Facility was signed. The full amount of €700 million is available for draw down as at 30 September 2006 as it was as at 31 March 2006. This revolving credit facility is subject to the following financial covenants:

Covenants	Minimum Interest Cover	Consolidated net worth	Maximum Net debt leverage
	(a)	(b)	(c)
		(in € million)	
September 2006	3	1,360	3.6
March 2007	3	1,360	3.6
September 2007	3	1,360	3.6
March 2008	3	1,360	3.6
September 2008	3	1,360	3.6
March 2009	3	1,360	3.6
September 2009	3	1,360	3.6
March 2010	3	1,360	3.6
September 2010	3	1,360	3.6

(a) Ratio of EBITDA (Earnings Before Interest and Tax plus Depreciation and Amortisation, less capital gains and losses on disposal of investments, as set out in Consolidated Statements of Cash Flow) to consolidated net financial expense (interest expenses including securitisation expenses less interest income but excluding interest related to obligations under finance leases, pension interest cost and the consolidated net financial expense of special purpose entities which were not consolidated subsidiaries as of 31 March 2004). The interest cover at 30 September 2006 amounts to 15.4.

(b) Sum of shareholders' equity (excluding the cumulative impact of any deferred tax asset impairments arising after 31 March 2004 and including Bonds Reimbursable with Shares "ORA" not yet reimbursed) and minority interests (this covenant will not apply if and for so long as ALSTOM's rating is Investment Grade). After excluding the impact of the impairment of deferred tax assets recorded since 31 March 2004 of €305 million, the consolidated net worth at 30 September 2006 to compare with the covenant above is €2,348 million.

(c) Ratio of total net debt (total financial debt excluding finance lease obligations less short-term investments and cash and cash equivalents) to EBITDA. The net debt leverage as at 30 September 2006 is 0.39.

(c) Analysis by maturity and interest rate

Amounts presented below are based on the nominal values.

At 30 September 2006		Short term	Long term				
	Total	within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
					(in €million)		
Bonds reimbursable with shares	5	-	-	5	-	-	-
Bonds	2 000	-	400	600	1 000	-	-
Other	74	15	4	15	3	20	17
Borrowings	**2 079**	**15**	**404**	**620**	**1 003**	**20**	**17**
Obligations under finance leases	**205**	**22**	**22**	**19**	**17**	**17**	**108**
Financial debt	**2 284**	**37**	**426**	**639**	**1 020**	**37**	**125**

The nominal and effective rates of interest are as follows:

At 30 September 2006		Nominal interest rate	Effective interest rate
Bonds			
	July 2008	Euribor 3M+ 0.9%	4.5%
	March 2009	Euribor 3M+ 2.2%	5.9%
	March 2010	6.3%	7.2%

The financial debt before swaps is broken down between fixed rate and floating rate as follows:

(in € million)	At 30 September 2006	At 31 March 2006
Financial debt at fixed rate	1 290	1 565
Financial debt at floating rate	994	1 041
Financial debt	**2 284**	**2 606**

(d) Analysis by currency

Amounts presented below are based on nominal values.

(in € million)	**At 30 September 2006**	**At 31 March 2006**
Euro	2 101	2 415
US Dollar	10	31
British Pound	27	43
Other currencies	146	117
Financial debt	**2 284**	**2 606**

Note 21 – Other current liabilities

(in € million)	**At 30 September 2006**	**At 31 March 2006**
Staff and associated costs	557	602
Corporate income tax	78	146
Other taxes	210	169
Derivatives related to operating activities	76	87
Remeasurement of off balance sheet commitments	161	159
Other	572	467
Other current liabilities	**1 654**	**1 630**

Note 22 – Assets held for sale and liabilities directly associated

Since 1 April 2005, assets and liabilities attributable to leases of trains and associated equipment have been classified as assets held for sale and liabilities directly associated and are presented separately in the balance sheet as they were expected to be disposed of within twelve months. Assets held for sale and liabilities directly associated amount to €639 million at 30 September 2006 and €613 million at 31 March 2006. The whole amount represents a non current asset attributable to a long-term rental on the asset side of the balance sheet and the related financial obligation on the liabilities side, respectively.

During the six month ended 30 September 2006, circumstances arose that were previously considered unlikely. Consequently, the Group has not been able to finalise the disposal of these assets under the terms initially planned, although the best efforts have been deployed to respond to the conditions imposed by the parties. The Group is still committed in the disposal of these assets and liabilities.

At 31 March 2006, other groups of assets held for sale related to the Marine Sector following the commitment of the Company to sell to Aker Yards 75% interest in the Marine Sector.

On 31 May 2006, the sale was completed and the Marine Sector has been deconsolidated from that date. Since the transaction was structured as an asset sale, the progressive extinction of remaining assets and liabilities retained by the Group is shown in held for sale and discontinued operations (see Note 9) during the financial year.
At 30 September 2006, the 25% interest held by the Group is accounted for in investments. The remaining stake will be sold to Aker Yards by 2010 through a put and call agreement, at a price depending on the financial performance.

At 30 September 2006, the major classes of assets and liabilities comprising the disposal groups classified as held for sale are as follows:

(in € million)	**Leases of trains and equipment**	**Marine activities**	**Total at 30 September 2006**	**Total at 31 March 2006**
Property, plant and equipment, net	-	-	-	11
Non current assets, net	639	4	643	618
Construction contracts in progress assets	-	147	147	172
Inventories, trade receivables and other current assets, net	-	13	13	38
Cash and cash equivalents	-	-	-	317
Assets held for sale	**639**	**164**	**803**	**1 156**
Assets held for sale, impairment	-	-	-	(12)
Assets classified as held for sale, net	**639**	**164**	**803**	**1 144**
Provisions	-	23	23	124
Obligations under finance leases	639	-	639	615
Current borrowings	-	89	89	-
Construction contracts in progress, liabilities	-	52	52	154
Trade payables and other current liabilities	-	57	57	250
Liabilities directly associated with assets held for sale	**639**	**221**	**860**	**1 143**

With respect to Marine activities, the €89 million current borrowings at 30 September 2006 are the result of the €317 million opening cash position minus the €406 million decrease in cash and cash equivalents as described in Note 9.

Note 23 – Sector and geographic data

a) Sector data

The Group is managed through sectors of activity and has determined its reportable segments accordingly.

At 30 September 2006, the Group is organised in three Sectors, following the sale of the Marine Sector during the period.

- ***Power Turbo-Systems / Power Environment Sector***

Power Turbo-Systems / Power Environment provides steam turbines, gas turbines, generators and power plant engineering, including hydro equipments and systems. It also focuses on boilers and emissions control equipment in the power generation, petrochemical and industrial markets. Finally, it serves demand for upgrades and modernisation of existing power plants.

- ***Power Service Sector***

Power Service promotes the service activities relating to the Power Turbo Systems / Environment Sector and services to customers in all geographic markets.

- ***Transport Sector***

Transport provides equipment, systems, and customer support for rail transportation including passenger trains, locomotives, signalling equipment, rail components and service.

The Power Conversion business which was sold during the year ended 31 March 2006 was still included in the segmental information as at 31 March 2006 and 30 September 2005.

Some units, not material to the Sector presentation, were transferred between Sectors. The revised Sector composition has not been reflected on a retroactive basis.

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At 30 September 2006

(in € million)	Power Turbo-Systems/ Power Environment	Power Service	Transport	Corporate & other (1)	Eliminations	Total
Sales	2 868	1 574	2 370	22	(226)	6 608
Inter sector eliminations	(136)	(90)	-	-	226	-
Total Sales	**2 732**	**1 484**	**2 370**	**22**	**-**	**6 608**
Income from operations	**83**	**238**	**151**	**(59)**	**-**	**413**
Earnings before interest and taxes	**86**	**234**	**130**	**(78)**	**-**	**372**
Financial income (expenses), net						(61)
Income tax						(78)
Share in net income (loss) in associates						-
Net profit from continuing operations						**233**
Net loss from discontinued operations						**(15)**
NET PROFIT						**218**
Segmental assets (2)	**4 871**	**4 156**	**4 484**	**1 316**	**-**	**14 827**
Deferred taxes (assets)						1 301
Pension assets						417
Current financial assets, net						1 640
Assets held for sale						803
TOTAL ASSETS						**18 988**
Segmental Liabilities (3)	**5 702**	**2 259**	**4 429**	**560**	**-**	**12 950**
Deferred taxes (liabilities)						91
Accrued pension and retirement benefits						793
Financial debt						2 251
Total equity						2 043
Liab. associated with assets held for sale						860
TOTAL LIABILITIES						**18 988**
Capital employed (4)	**(831)**	**1 897**	**55**	**756**	**-**	**1 877**
Capital expenditure	**39**	**17**	**51**	**18**	**-**	**125**
Depreciation and amortisation in EBIT	**58**	**31**	**42**	**18**	**-**	**149**

(1) Corporate & Other includes all units accounting for Corporate costs, the International Network and the overseas entities in Australia, New Zealand and India that are not allocated to Sectors.

(2) Segmental assets are defined as the closing position of goodwill, intangible assets, net, property, plant and equipment, net, other non current assets, net (excluding pension assets) and current assets, net (excluding marketable securities and other current financial assets and cash and cash equivalents).

(3) Segmental liabilities are defined as the closing position of current and non-current provisions and current liabilities (excluding current financial debt).

(4) Capital employed corresponds to segmental assets minus segmental liabilities.

At 31 March 2006

(in € million)	Power Turbo-Systems/ Power Environment	Power Service	Transport	Power Conversion	Corporate & other (1)	Eliminations	Total
Sales	5 396	3 062	5 129	276	100	(550)	13 413
Inter sector eliminations	(317)	(209)	(1)	(15)	(8)	550	-
Total Sales	**5 079**	**2 853**	**5 128**	**261**	**92**	**-**	**13 413**
Income from operations	101	442	324	16	(137)	-	746
Earnings before interest and taxes	**75**	**407**	**256**	**14**	**(25)**	**-**	**727**
Financial income (expenses), net							(222)
Income tax							(125)
Share in net income (loss) in associates							(1)
Net profit from continuing operations							**379**
Net loss from discontinued operations							(198)
NET PROFIT							**181**
Segmental assets (2)	**4 633**	**3 890**	**4 224**	**-**	**1 558**	**-**	**14 305**
Deferred taxes (assets)							1 249
Pension assets							387
Current financial assets, net							1 323
Assets held for sale							1 144
TOTAL ASSETS							**18 408**
Segmental Liabilities (3)	**5 072**	**2 078**	**4 099**	**-**	**774**	**-**	**12 023**
Deferred taxes (liabilities)							39
Accrued pension and retirement benefits							792
Financial debt							2 571
Total equity							1 840
Liab. associated with assets held for sale							1 143
TOTAL LIABILITIES							**18 408**
Capital employed (4)	**(439)**	**1 812**	**125**	**-**	**784**	**-**	**2 282**
Capital expenditure	**103**	**35**	**125**	**3**	**28**	**-**	**294**
Depreciation and amortisation in EBIT	**125**	**61**	**116**	**5**	**106**	**-**	**413**

(1) Corporate & Other includes all units accounting for Corporate costs, the International Network and the overseas entities in Australia, New Zealand and India that are not allocated to Sectors.

(2) Segmental assets are defined as the closing position of goodwill, intangible assets, net, property, plant and equipment, net, other non current assets, net (excluding pension assets) and current assets, net (excluding marketable securities and other current financial assets and cash and cash equivalents).

(3) Segmental liabilities are defined as the closing position of current and non-current provisions and current liabilities (excluding current financial debt).

(4) Capital employed corresponds to segmental assets minus segmental liabilities.

At 30 September 2005

(in € million)	Power Turbo-Systems/ Power Environment	Power Service	Transport	Marine (5)	Power Conversion	Corporate & other (1)	Eliminations	Total
Sales	2 593	1 613	2 553	-	243	67	(290)	6 779
Inter sector eliminations	(167)	(108)	-	-	(13)	(2)	290	-
Total Sales	**2 426**	**1 505**	**2 553**	**-**	**230**	**65**	**-**	**6 779**
Income from operations	**37**	**220**	**155**	**-**	**13**	**(55)**	**-**	**370**
Earnings before interest and taxes	**11**	**218**	**128**	**-**	**12**	**43**	**-**	**412**
Financial income (expenses), net								(90)
Income tax								(75)
Share in net income (loss) in associates								(1)
Net profit from continuing operations								**246**
Net loss from discontinued operations								**(107)**
NET PROFIT								**139**
Segmental assets (2)	**4 898**	**3 936**	**4 369**	**323**	**297**	**1 755**	**-**	**15 578**
Deferred taxes (assets)								1 229
Pension assets								380
Current financial assets, net								1 985
Assets held for sale								634
TOTAL ASSETS								**19 806**
Segmental Liabilities (3)	**5 469**	**2 147**	**4 079**	**410**	**349**	**868**	**-**	**13 322**
Deferred taxes (liabilities)								17
Accrued pension and retirement benefits								826
Financial debt								3 205
Total equity								1 802
Liab. associated with assets held for sale								634
TOTAL LIABILITIES								**19 806**
Capital employed (4)	**(571)**	**1 789**	**290**	**(87)**	**(52)**	**887**	**-**	**2 256**
Capital expenditure	**42**	**14**	**47**	**-**	**2**	**15**	**-**	**120**
Depreciation and amortisation in EBIT	**60**	**34**	**51**	**-**	**4**	**43**	**-**	**192**

(1) Corporate & Other includes all units accounting for Corporate costs, the International Network and the overseas entities in Australia, New Zealand and India that are not allocated to Sectors.

(2) Segmental assets are defined as the closing position of goodwill, intangible assets, net, property, plant and equipment, net, other non current assets, net (excluding pension assets) and current assets, net (excluding marketable securities and other current financial assets and cash and cash equivalents).

(3) Segmental liabilities are defined as the closing position of current and non-current provisions and current liabilities (excluding current financial debt).

(4) Capital employed corresponds to segmental assets minus segmental liabilities.

(5) In accordance with IFRS 5, Marine activities have been retrospectively classified as discontinued operations in the income statement for the half-year ended 30 September 2005 whereas the presentation of the associated assets and liabilities in the balance sheet at 30 September 2005 remains unchanged.

b) Geographic data

Sales and capital expenditure by country of destination

At 30 September 2006

(In € million)	**Sales by country of destination**	**Capital Expenditure**
Euro Zone (1)	2 042	72
Rest of Europe	1 026	27
North America	1 069	9
South & Central America	398	3
Asia & Pacific	1 288	13
Middle East & Africa	785	1
Total Group	**6 608**	**125**

At 31 March 2006

(In € million)	**Sales by country of destination**	**Capital Expenditure**
Euro Zone (1)	4 221	123
Rest of Europe	2 080	71
North America	2 172	22
South & Central America	891	6
Asia & Pacific	2 747	69
Middle East & Africa	1 302	3
Total Group	**13 413**	**294**

At 30 September 2005

(In € million)	**Sales by country of destination**	**Capital Expenditure**
Euro Zone (1)	2 031	58
Rest of Europe	1 175	23
North America	1 025	8
South & Central America	414	2
Asia & Pacific	1 403	27
Middle East & Africa	731	2
Total Group	**6 779**	**120**

(1) Euro zone includes Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Spain and Portugal.

Note 24 – Off balance sheet commitments and other obligations

a) Off balance sheet commitments

(in € million)	**At 30 September 2006**	**At 31 March 2006**
Guarantees related to contracts (1) (*)	5 076	4 816
Guarantees related to Vendor financing (2)	397	432
Commitments to purchase fixed assets	14	8
Other guarantees (**)	191	242
TOTAL	**5 678**	**5 498**

(*) The amount reported as at 31 March 2006 included previously €2.7 billion of ABB Parent guarantee detailed here-below in Parent company guarantees
(**) Other guarantees include off balance sheet commitments relating to financial obligations such as VAT payments, rentals, customs, insurance deductibles. These are materialised by independent undertakings but support mainly existing liabilities included in the consolidated accounts.

(1) Guarantees related to contracts

Banks and insurance companies bonds:

In accordance with industry practice, the above instruments can, in the normal course, extend from the tender period until the final acceptance by the customer, up to the end of the warranty period and may include guarantees on project completion, contract-specific defined performance criteria or availability.

The guarantees are provided by banks or insurance companies by way of bank guarantees, surety bonds and stand by letters of credit and are normally for defined amounts and periods. They are issued in favour of the customer with whom the commercial contracts have been signed. The Group provides a counter indemnity to the bank or surety company which issues the said instruments.

Projects for which the guarantees are given are regularly reviewed by management and should payments become probable pursuant to guarantees, the necessary accruals will be made and recorded in the Consolidated Financial Statements at that time.

(in € million)	**At 30 September 2006**	**At 31 March 2006**
Bid bonds	132	124
Performance bonds	4 071	3 569
Warranty / retention bonds	728	922
Other bank and insurance bonds	145	201
TOTAL	**5 076**	**4 816**

The above figures exclude however:

- €4.1 billion at 30 September 2006 (€4.3 billion at 31 March 2006) of advance and progress payment related unconditional guarantees which payments have been included over time in the balance sheet in the line “Construction contracts in progress, assets or liabilities”.
- €2.1 billion at 30 September 2006 (€2.3 billion at 31 March 2006) of surety and conditional bonds (including advance payment bonds) where the likelihood of the commitments becoming obligations is considered to be remote.

The bonding guarantees relating to contracts, issued by banks or surety companies, amount to €11.3 billion at 30 September 2006 (€11.4 billion at 31 March 2006).

Parent company guarantees:

In the context of the Share Purchase and Settlement Agreement signed with ABB Ltd in March 2000 pursuant to which the Group purchased ABB's 50% share of the joint venture ABB ALSTOM Power, the Group has agreed to indemnify ABB with respect to parent company guarantees that it had previously issued with respect to certain of power contracts, the total outstanding amount of such ABB guarantees being €2.3 billion at 30 September 2006 (€2.7 billion at 31 March 2006). These parent company guarantees are not included in the above figures as they are relating to liabilities already included in the consolidated accounts. In the same manner, guarantees given by parent or Group companies relating to liabilities included in the consolidated accounts remain excluded.

Bonding lines and bonding programme:

The Group has currently in place both local bilateral lines in numerous countries and a global €10.5 billion Bonding Programme allowing issuance of new instruments up to July 2008 and syndicated up to €9.7 billion.

All instruments issued under that programme until 27 July 2006 and amounting at 30 September 2006 to €5.4 billion are currently covered by a 25% security package (the "initial security package") consisting of:
- a €700 million first loss cash collateral (see Note 13)
- a second loss guarantee amounting to €646 million at 30 September 2006 and composed of both the French State guarantee (through the CFDI – Caisse Française de Développement Industriel) and ALSTOM's principal banks guarantee.

This security package amortises over time in due proportion of the releases of the underlying instruments by reducing first the second loss guarantees.

All instruments issued after 27 July 2006 and amounting at 30 September 2006 to €1.6 billion will remain fully unsecured for as long as the operating result of the company and its headroom remain above specific levels of both Operating Margin[1] and Headroom[2] on given testing date failing which a second security package in the form of a new cash collateral will be activated (the "Extended Security Package"):

- Level 0: The Extended Security Package will remain at 0 if the operating margin remains above the following levels on a 12-month rolling basis:

Testing date	31/03/2006	30/09/2006	31/03/2007	30/09/2007	31/03/2008
Operating margin	5%	5.375%	5.75%	6.125%	6.5%

- Level 1: The Extended Security Package will be raised to €175 million if the operating margin remains above the following levels on a 12-month rolling basis but below level 0 here-above:

Testing date	31/03/2006	30/09/2006	31/03/2007	30/09/2007	31/03/2008
Operating margin	4.75%	5.125%	5.5%	5.875%	6.25%

- Level 2: The Extended Security Package will be raised to 5% of the then outstanding bonding programme amount if the operating margin remains above the following levels on a 12-month rolling basis but below level 1 here-above:

Testing date	31/03/2006	30/09/2006	31/03/2007	30/09/2007	31/03/2008
Operating margin	3.75%	4.125%	4.5%	4.875%	5.25%

- Level 3: The Extended Security Package will be raised to 10% of the then outstanding bonding programme amount if the operating margin falls below the following levels on a 12-month rolling basis:

Testing date	31/03/2006	30/09/2006	31/03/2007	30/09/2007	31/03/2008
Operating margin	3.75%	4.125%	4.5%	4.875%	5.25%

If on any such testing date or as at the date falling six months after such testing date the headroom falls below €800 million, Extended Security Package 3 will be activated.

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[1] Is expressed as a percentage of income or loss from operations to sales
[2] Cash and cash equivalents and undrawn credit lines

The terms of the "Extended Security Package" will be applied to the whole bonding programme portfolio (instruments issued before or after 27 July 2006) once the second loss guarantees here-above will be completely amortised which we expect to take place prior to March 2008.
From there onwards, the Extended Security Package will provide for a fully unsecured bonding programme if level 0 remains achieved, including for the remaining period of the programme after the last testing date of March 2008.

The issuance of new bonds under the bonding programme mentioned above is also subject to the financial covenants disclosed in Note 20.

At 30 September 2006, €295 million of bonds and guarantees relating to units sold as part of disposals were still held by the Group (€388 million at 31 March 2006).

(2) Vendor financing

The Group has provided financial support, referred to as vendor financing, to financial institutions and granted financing to certain purchasers of its cruise-ships for ship-building contracts signed up to fiscal year 1999 and other equipment. The off-balance sheet "vendor financing" is €397 million at 30 September 2006.

The table below sets forth the breakdown of the outstanding off-balance sheet vendor financing at 30 September 2006 and 31 March 2006:

(in € million)	**At 30 September 2006**	**At 31 March 2006**
Marine	**86**	**126**
Renaissance / Festival	*28*	*41*
Other	*58*	*85*
Transport	**311**	**306**
European metro operator (2)	*261*	*254*
Other	*50*	*52*
Total vendor financing commitments (1)	**397**	**432**

(1) Off-balance sheet figures correspond to the total guarantees and commitments, net of related cash deposits, which are shown as balance sheet item.
(2) Guarantees given include the requirement to deposit funds in escrow in the event of non-respect of certain covenants.

Marine

Renaissance / Festival

At 30 September 2006, the remaining commitments only comprise the undrawn portions of the credit lines formerly granted for the repossession and maintenance costs of the former Renaissance and Festival ships for €28 million. The guarantee formerly given for the refinancing of one subsidiary of Cruiseinvest LLC was terminated and the corresponding advances partially recovered when the ship owned was sold in May 2006.

Other

At 30 September 2006, the remaining commitment corresponds to the residual value guarantee provided by the Group on one cruise-ship for an amount of €58 million.

Based on known facts and on assumptions as to the evolution of the situation regarding all cruise-ships and high speed ferries still benefiting from credit lines or residual value guarantees, the Group considers that the provision of €16 million at 30 September 2006 in respect of Marine Vendor financing is adequate to cover the probable risk.

Transport

At 30 September 2006, guarantees given as part of vendor financing arrangements in Transport Sector amount to €311 million.
Included in this amount are guarantees totalling US$63 million (€50 million and €52 million at 30 September 2006 and 31 March 2006 respectively) given with respect to equipment sold to Amtrak, and also guarantees given as part of a leasing scheme involving a major European metro operator. Were the metro operator to decide in 2017 not to extend the initial period, the Group has guaranteed to the lessors that the value of the trains and associated equipment at the option date should not be less than GBP177 million (€261 million and €254 million at 30 September 2006 and 31 March 2006, respectively).

b) Lease obligations

(in € million)	Total	Within 1 year	1 to 5 years	Over 5 years
Long term rental (1)	629	16	100	513
Capital leases	291	36	112	143
Operating leases	300	44	134	122
Total at 31 March 2006	**1 220**	**96**	**346**	**778**
Long term rental (1)	639	17	93	529
Capital leases	265	31	104	130
Operating leases	407	65	205	137
Total at 30 September 2006	**1 311**	**113**	**402**	**796**

(1) Asset related to leases of trains and associated equipment to a European metro operator (see Note 22).

Note 25 – Contingencies

- Litigation

The Group is engaged in several legal proceedings, mostly contract related disputes that have arisen in the ordinary course of business. Contract related disputes, often involving claims for contract delays or additional work, are common in the areas in which the Group operates, particularly for large, long-term projects. In some cases, the amounts claimed against the Group, sometimes jointly with its consortium partners, in these proceedings and disputes are significant, ranging up to around €360 million in one particular dispute.

Some proceedings against the Group are without a specified amount. Amounts retained in respect of litigation are taken into account in the estimate of margin at completion in case of contracts in progress or included in provisions and other current liabilities in case of completed contracts when considered as reliable estimates of probable liabilities. Actual costs incurred may exceed the amount of initial estimates because of a number of factors including the inherent uncertainties of the outcome of litigation.

- ***Asbestos***

The Group is subject to regulations in many countries in which it operates, regarding the control and removal of asbestos–containing material and identification of potential exposure of employees to asbestos. It has been the Group's policy for many years to abandon definitively the use of products containing asbestos by all of its operating units worldwide and to promote the application of this principle to all of its suppliers, including in those countries where the use of asbestos is permitted. In the past, however, the Group has used and sold some products containing asbestos, particularly in France in its former Marine Sector sold on 31 May 2006 and to a lesser extent in its other Sectors. The Group is subject to asbestos-related legal proceedings or claims including in France, the United States and the United Kingdom.

Some of the Group's subsidiaries are the subject in France of judicial civil proceedings instituted by certain employees or former employees with the aim of obtaining a court decision holding these subsidiaries liable for an inexcusable fault (faute inexcusable) which would allow them to obtain a supplementary compensation above the payments made by the French Social Security funds of related medical costs. Although the courts of competent jurisdiction have made findings of inexcusable fault, the damages in most of these proceedings have been borne to date by the general French Social Security (medical) funds.

As for criminal law, in September 2006, one of the Group's subsidiaries has been fined 75,000 euros by a criminal court (tribunal correctionnel) for breach of the law protecting employees against asbestos dust. By a provisional enforcement order, the court has also granted each defendant 10,000 euros as compensation for damages. The subsidiary has decided to appeal this decision, objecting the court's qualification of the infringement, which accuses without justifications ALSTOM of having deliberately endangered the employees' health.

Although no assurance can be given, the Group believes that the cases where it may be required to bear the financial consequences of these civil or criminal proceedings do not represent a material exposure and therefore, no provisions have been recorded.

Certain subsidiaries of the Group are subject in the United States to various asbestos-related personal injury lawsuits alleged to involve products manufactured by Combustion Engineering, Inc. ("CE"), a US subsidiary of ABB Ltd ("ABB"), or CE's former subsidiaries and to two putative class action lawsuits asserting fraudulent conveyance claims against various ALSTOM and ABB entities in relation to CE. CE filed a plan of reorganisation in the United States Bankruptcy Court which was modified and became effective on 21 April 2006. ALSTOM believes that under the terms of the CE plan of reorganisation, it is protected against pending and future personal injury asbestos claims, or fraudulent conveyance claims, arising out of the past operations of CE. The Group is also subject in the United States to three pending asbestos-related personal injury lawsuits which have their origin solely in the Company's purchase of certain former Power Generation businesses of ABB and its subsidiaries (other than CE and its subsidiaries), for which the Group is indemnified by ABB.

In addition, the Group is also subject to approximately 17 other asbestos-related personal injury lawsuits in the United States involving approximately 472 claimants that, in whole or in part, assert claims against ALSTOM which are not related to the Power Generation Business purchased from ABB or as to which the complaint does not provide details sufficient to permit to determine whether the ABB indemnity applies. Most of these lawsuits are in the preliminary stages of the litigation process and they each involve multiple defendants. The allegations in these lawsuits are often very general and difficult to evaluate at preliminary stages in the litigation process. In those cases where ALSTOM's defence has not been assumed by a third party and meaningful evaluation is practicable, the Group believes that it has valid defences and, with respect to a number of lawsuits, the Group is asserting rights to indemnification against a third party.

For purposes of the foregoing discussion, the Group considers a claim to no longer be pending against it if the plaintiff's attorneys have executed a notice or stipulation of dismissal or non-suit, or other similar document.

While the outcome of the existing asbestos-related cases described above is not predictable, the Group believes that those cases will not have a material adverse effect on its financial condition. It can give no assurances, however, that asbestos-related cases against it will not grow in number or that those it has at present, or may face in the future, may not have a material adverse impact on its financial condition.

- Product liability

The Group designs, manufactures, and sells several products of large individual value that are used in major infrastructure projects. In this environment, product-related defects have the potential to create liabilities that could be material. If potential product defects become known, a technical assessment occurs whereby products of the affected type are quantified and studied. If the results of the study indicate that a product liability exists, provisions are recorded. The Group believes that it has made adequate provisions to cover currently known product-related liabilities, and regularly revises its estimates using currently available information. Neither the Group nor any of its businesses are aware of product-related liabilities which are expected to exceed the amounts already recognised and the Group believes it has provided sufficient amounts to satisfy its litigation, environmental and product liability obligations to the extent they can be estimated.

- SEC investigation

The Group, certain of its subsidiaries and certain current and former officers, employees and members of its Board of Directors have been involved in U.S. regulatory investigations regarding potential securities law violations.

On 30 June 2003, the Group announced that it was conducting an internal review, assisted by external lawyers and accountants, following receipt of anonymous letters alleging accounting improprieties on a railcar contract being executed at the New York facility of ALSTOM Transportation Inc. ("ATI"), one of its U.S. subsidiaries. The United States Securities and Exchange Commission ("SEC") and the United States Federal Bureau of Investigation ("FBI") began informal inquiries and in August 2003, the SEC issued a formal order of investigation in connection with its earlier review.

The Group has fully cooperated with the SEC and the FBI in this matter and intends to continue to do so. The Group believes that the FBI inquiry is dormant and cannot predict when the SEC's investigation will be completed or its outcome. Any adverse developments in connection with this matter, including, but not limited to, any enforcement action against the Group or any of its personnel, could result in civil or criminal sanctions against the Group or any of its personnel, which could limit its ability to obtain in the United States governmentally-funded transportation contracts, or could otherwise materially negatively impact its business.

- United States Putative Class Action Lawsuit

The Group, certain of its subsidiaries and certain of its current and former Officers and Directors have been named as defendants in a number of putative shareholder class action lawsuits filed on behalf of various alleged purchasers of American Depositary Receipts and other ALSTOM securities between 3 August 1999 and 6 August 2003. These lawsuits which have been consolidated in one complaint filed on 18 June 2004, alleged violations of United States federal securities laws arising from alleged untrue statements of material facts, and/or omissions to state material facts necessary to make the statements made not misleading in various ALSTOM public communications regarding its business, operations and prospects (in the areas of the performance of its GT24/26 turbines, certain vendor financing arrangements for the former Marine Sector's customers, and its US Transport business, including but not limited to the matter described above), causing the allegedly affected shareholders to purchase ALSTOM securities at purportedly inflated prices.

On 22 December 2005, the United States Federal District Court dismissed large portions of the consolidated complaint, including all claims relating to its GT24/26 turbines, all claims against the Group's current Officers and Directors, all claims against ALSTOM (but not ATI) relating to its US Transport business, and all claims brought by non U.S. investors who purchased ALSTOM securities on non-U.S. stock exchanges except for those relating to its US Transport business. On 14 March 2006, the plaintiffs filed a second amended consolidated complaint which re-asserts, among other things, claims against ALSTOM relating to its US Transport business. In a decision dated 29 September 2006, the Court denied the motion to dismiss of ALSTOM and ATI and permitted the plaintiffs to proceed with the claims pleaded in this second complaint.

The Group's Management has spent and may in the future be required to spend considerable time and effort dealing with these matters. While the Group has cooperated and intend to continue to cooperate with the governmental authorities in connection with the ATI matter and to vigorously defend the putative class action lawsuit, the Group cannot ensure that there will be no adverse outcome which could have a material adverse effect on its business, results of operations and financial condition.

- Environmental, health and safety

The Group is subject to a broad range of environmental laws and regulations in each of the jurisdictions in which it operates. These laws and regulations impose increasingly stringent environmental protection standards on the Group regarding, among other things, air emissions, wastewater discharges, the use and handling of hazardous waste or materials, waste disposal practices and the remediation of environmental contamination. These standards expose the Group to the risk of substantial environmental costs and liabilities, including liabilities associated with divested assets and past activities. In most of the jurisdictions in which the Group operates, its industrial activities are subject to obtaining permits, licences and/or authorisations, or to prior notification. Most of its facilities must comply with these permits, licences or authorisations and are subject to regular administrative inspections.

The Group invests significant amounts to ensure that it conducts its activities in order to reduce the risks of impacting the environment and regularly incurs capital expenditure in connection with environmental compliance

requirements. Although the Group is involved in the remediation of contamination of certain properties and other sites, it believes that its facilities are in compliance with their operating permits and that its operations are generally in compliance with environmental laws and regulations.

The Group has put in place a global policy covering the management of environmental, health and safety risks.

The procedures for ensuring compliance with environmental, health and safety regulations are decentralised and monitored at each plant. The costs linked to environmental health and safety issues are budgeted at plant or unit level and included in the consolidated income statement.

The outcome of environmental, health and safety matters cannot be predicted with certainty. There can be no assurance that the Group will not incur any environmental, health and safety liabilities in the future and the Group cannot guarantee that the amount that it has budgeted or provided for remediation and capital expenditure for environmental or health and safety related projects will be sufficient to cover the intended loss or expenditure. In addition, the discovery of new facts or conditions or future changes in environmental laws, regulations or case law may result in increased liabilities that could have a material adverse effect on its financial condition or results of operations.

- Claims relating to disposals

From time to time the Group disposes of certain businesses or business segments. As it is usual, certain acquirers make claims against the Group as a result of price adjustment mechanisms and warranties generally foreseen in the sale agreements.

At 30 September 2006, the Group has received claims in connection with the disposals of certain of its activities which mainly concern its former T&D Sector including with respect to investigation by a number of national authorities and the European Commission of alleged anti-competitive arrangements among suppliers in certain T&D activities which are mentioned below.

- Alleged violation of laws

Many of the Group's Businesses operate in sectors where a relatively small number of participants can materially affect the market dynamics. Although these markets are frequently fiercely competitive, there are at times allegations of anti-competitive activity. For example, the Group has been informed of investigations by various governmental authorities, including the European Commission, relating to alleged anti-competitive arrangements among suppliers of certain products of the T&D business sold to Areva on 9 January 2004. In April 2006, the European Commission commenced proceedings against ALSTOM, along with a number of other companies, based on allegations of anti-competitive practices in the sale of gas-insulated switchgears, a product of its former T&D business, following investigations that began in 2004. The competition authorities in Hungary have ordered fines against both the ALSTOM and the Areva groups with respect to alleged anti-competitive practices in the gas-insulated business in that country. ALSTOM has contested this decision before the Budapest Metropolitan Court on 17 March 2006.

The Group conducts a significant proportion of its business with governmental agencies and public-sector entities, including those in countries known to experience corruption, which creates the risk of prohibited payments by its employees and agents. The Group actively strives to ensure compliance with the laws and regulations relating to illegal or other prohibited payments and has established internal compliance programmes to control the risk of such illegal activities and appropriately address any problems that may arise. However, a limited number of current and former employees and agents of the Group have been or are currently being investigated with respect to alleged illegal payments in various countries. Certain of these procedures, including pending procedures in Mexico and Italy, may result in fines and the exclusion of its subsidiaries from public tenders in the relevant country for a defined period.

The Group considers that there are no matters outstanding and unprovided that are capable of estimation that are likely to have a material adverse impact on the interim consolidated financial statements.

Note 26 – Share-based payments

(a) Valuation of stock option plans

In compliance with the transitional measures of IFRS 2 standard, only stock option plans granted after 7 November 2002 and not fully vested at 1 January 2005 are subject to a valuation, ie plans 7 and 8 only.

Employees' expenses recorded in that respect amount to €5 million for the half-year ended 30 September 2006 (€10 million for the year ended 31 March 2006).

The option valuation method follows a binomial mathematical model, with exercise of the options anticipated and spread over the exercise period on a straight-line basis. The volatility factor applied is an average of CAC 40 comparable companies' volatility at the grant date, which represents a value consistent with market practices and is considered relevant given the significant volatility of the Group's share price over the last few years.

	Plan n°7	**Plan n°8**
Grant date	17 September 2004	27 September 2005
End of vesting period	17 September 2007	27 September 2008
Expected life of options	4 years	4 years
Exercise price (€)	17.20	35.75
Share price at grant date (€)	17.60	36.80
Volatility	51%	34%
Risk free interest rate	3.0%	2.5%
Average dividend yield (%)	0.67%	1.33%
Weighted average fair value (€)	7.32	10.33
Expense for the half-year ended 30 September 2006 (*in € million*)	3	2

On 28 September 2006, the Board of Directors decided to implement a new stock option plan ("Plan n°9") whereby 1,683,750 options have been granted. The options, which are not exercisable during a three-year period, are subject to exercise conditions. The total number of options effectively exercisable will depend on the level of Group's operating margin for the financial year 2007/08:

- if 2007/08 Group's operating margin is between 7% and 7.5%, 1,347,000 options will be exercisable;
- if 2007/08 Group's operating margin is below 7%, 50% of these 1,347,000 options, ie 673,500 options, will be exercisable;
- if 2007/08 Group's operating margin is above 7.5%, 125% of these 1,347,000 options, ie 1,683,750 options, will be exercisable.

Plan n°9 has no impact on the interim consolidated financial statements at 30 September 2006.

All other stock option plans are described in Note 30 to the consolidated financial statements for the year ended 31 March 2006.

(b) Valuation of stock appreciation rights (SARs) plans

The value of SARs plans is measured at the grant date using a binomial model taking into account the terms and conditions upon which the instruments were granted. The liability is recognised over the expected vesting period. Until the liability is settled, it is measured at each reporting date with changes in fair value recognised in profit and loss.

Employees' expenses recorded in that respect amount to €3 million for the half-year ended 30 September 2006 (€5 million for the year ended 31 March 2006). At 30 September 2006, liabilities related to these three SARs plans are recorded in the balance sheet for an amount of €8 million.

	SARs n°7	**SARs n°8**	**Notional SARs (1)**
Grant date	1 December 2004	18 November 2005	16 December 2005
End of vesting period	17 September 2007	27 September 2008	27 september 2008
Exercise price (€)	17.20	44.90	35.75
Share price at 30 September 2006 (€)	71.35	71.35	71.35
Volatility	34%	34%	34%
Risk free interest rate	3.4%	3.4%	3.4%
Average dividend yield (%)	1.50%	1.33%	1.50%
Weighted average fair value (€)	50.67	30.22	5.74
Expense for the half-year ended 30 September 2006 (*in € million*)	2	1	-

(1) SARs of the Notional plan have been granted at an exercise price of €35.75 and are capped to €44.90.

On 28 September 2006, a new SARs plan has been implemented whereby 167,500 SARs have been granted. This plan has no significant impact on the interim consolidated financial statements at 30 September 2006.

All other SARs plans are described in Note 30 to the consolidated financial statements for the year ended 31 March 2006.

(c) Free shares

In the year ended 31 March 2006, an expense of €40 million was recorded following the announcement of the attribution of twelve free shares, or the equivalent in cash, to all employees with seniority of six months minimum on 17 November 2005. The portion to be settled in shares of €27 million was recorded through equity. The remaining portion to be settled in cash and the social charges for the whole attribution remains recorded in liabilities in the balance sheet for an amount of €13 million.

Note 27 – Subsequent events

On 29 September 2006, Bouygues and ALSTOM signed a binding agreement granting Bouygues a 50% interest in ALSTOM Hydro activities. ALSTOM holds a preferred right should Bouygues wish to dispose of its interests while Bouygues is benefiting from a put on ALSTOM under certain conditions.
Following clearance from all relevant anti-trust authorities, this operation was completed on 31 October 2006.

Note 28 – Major companies included in the scope of consolidation

The major companies of the Group are listed below and selected according to one of the following criteria:
- Holding companies
- Sales above €20 million at 30 September 2006.

Companies	Country	Ownership %	Consolidation Method
ALSTOM SA	France		Parent company
ALSTOM (Switzerland) Ltd (holding)	Switzerland	100.0	Full consolidation
ALSTOM Australia holdings Ltd	Australia	100.0	Full consolidation
ALSTOM España IB SL (holding)	Spain	100.0	Full consolidation
ALSTOM GmbH (holding)	Germany	100.0	Full consolidation
ALSTOM Holdings SA	France	100.0	Full consolidation
ALSTOM Hydro Holding SA	France	100.0	Full consolidation
ALSTOM Inc (holding)	United States	100.0	Full consolidation
ALSTOM NV (holding)	Netherlands	100.0	Full consolidation
ALSTOM Power Holdings SA	France	100.0	Full consolidation
ALSTOM UK Holding Ltd	United Kingdom	100.0	Full consolidation
ALSTOM Beizhong Power (Beijing) Co Ltd	China	60.0	Full consolidation
ALSTOM Belgium SA	Belgium	100.0	Full consolidation
ALSTOM Brasil Energia e Transporte Ltda	Brazil	100.0	Full consolidation
ALSTOM Canada Inc	Canada	100.0	Full consolidation
ALSTOM Ferroviaria Spa	Italy	100.0	Full consolidation
ALSTOM Hydro Energia Brasil Ltda *(1)*	Brazil	100.0	Full consolidation
ALSTOM Hydro Spain SL	Spain	100.0	Full consolidation
ALSTOM Hydro Switzerland AG	Switzerland	100.0	Full consolidation
ALSTOM Industrial Products Ltd	India	100.0	Full consolidation
ALSTOM K.K.	Japan	100.0	Full consolidation
ALSTOM LHB GmbH	Germany	100.0	Full consolidation
ALSTOM Ltd	United Kingdom	100.0	Full consolidation
ALSTOM Mexicana SA de CV *(2)*	Mexico	100.0	Full consolidation
ALSTOM NL Service Provision Ltd	United Kingdom	100.0	Full consolidation
ALSTOM Norway AS	Norway	100.0	Full consolidation
ALSTOM Philippines Inc.	Philippines	100.0	Full consolidation
ALSTOM Power (Thailand) Ltd	Thailand	100.0	Full consolidation
ALSTOM Power Boiler GmbH	Germany	100.0	Full consolidation
ALSTOM Power Centrales SA	France	100.0	Full consolidation
ALSTOM Power Conversion GmbH	Germany	100.0	Full consolidation
ALSTOM Power Energy Recovery GmbH	Germany	100.0	Full consolidation
ALSTOM Power Environment SA	France	100.0	Full consolidation
ALSTOM Power Generation AG	Germany	100.0	Full consolidation
ALSTOM Power Hydraulique SA	France	100.0	Full consolidation
ALSTOM Power Hydro Canada Inc	Canada	100.0	Full consolidation
ALSTOM Power Hydro SA	France	100.0	Full consolidation
ALSTOM Power Inc	United States	100.0	Full consolidation
ALSTOM Power Italia Spa	Italy	100.0	Full consolidation
ALSTOM Power ltd	Australia	100.0	Full consolidation
ALSTOM Power O&M AG	Switzerland	100.0	Full consolidation
ALSTOM Power SA	Spain	100.0	Full consolidation
ALSTOM Power Service GmbH	Germany	100.0	Full consolidation
ALSTOM Power Service Ltd	United Arab Emirates	100.0	Full consolidation
ALSTOM Power Service SA	France	100.0	Full consolidation
ALSTOM Power Sp Zoo	Poland	100.0	Full consolidation
ALSTOM Power Sro	Czech Republic	100.0	Full consolidation
ALSTOM Power Sweden AB	Sweden	100.0	Full consolidation
ALSTOM Power Turbomachines SA	France	100.0	Full consolidation
ALSTOM Projects India Ltd	India	68.5	Full consolidation
ALSTOM Signalling Inc.	United States	100.0	Full consolidation
ALSTOM Transport (S) Pte Ltd	Singapore	100.0	Full consolidation

ALSTOM Transport SA...	France	100.0	Full consolidation
ALSTOM Transportation Inc.................................	United States	100.0	Full consolidation
ALSTOM Transporte SA.......................................	Spain	100.0	Full consolidation
Eukorail Ltd	South Korea	100.0	Full consolidation
PT ALSTOM Power Energy Systems....................	Indonesia	87.0	Full consolidation
Tianjin ALSTOM Hydro Co Ltd	China	99.0	Full consolidation
West Coast Traincare...	United Kingdom	100.0	Full consolidation

(1) former name: ALSTOM Brasil Ltda

(2) former ALSTOM Power Mexico SA de CV which acquired ALSTOM Transporte SA and then was renamed in ALSTOM Mexicana SA de CV

A list of all consolidated companies is available upon request at the head office of the Group.