Consolidated financial statements

Year ended 31 March 2006

CONSOLIDATED INCOME STATEMENTS

(in € million)	**Note**	**Year ended 31 March 2006**	**Year ended 31 March 2005 (*)**
SALES	(25)	**13 413**	**12 920**
Of which products		*9 773*	*9 127*
Of which services		*3 640*	*3 793*
Cost of sales		(11 080)	(10 886)
Selling expenses		(569)	(535)
Research and development expenses	(6)	(364)	(405)
Administrative expenses		(654)	(623)
INCOME FROM OPERATIONS	(25)	**746**	**471**
Other income	(7)	233	67
Other expenses	(7)	(252)	(589)
EARNINGS (LOSS) BEFORE INTEREST AND TAXES	(25)	**727**	**(51)**
Financial income (expenses), net	(8)	(222)	(381)
PRE-TAX INCOME (LOSS)		**505**	**(432)**
Income tax charge	(9)	(125)	(163)
Share in net income (loss) of equity investments		(1)	-
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS		**379**	**(595)**
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	(10)	**(198)**	**(32)**
NET PROFIT (LOSS)		**181**	**(627)**
Attributable to:			
- Group share		178	(628)
- Minority interests		3	1
Earnings per share (in €)			
From continuing and discontinued operations			
- Basic	(11)	1,27	(5,76)
- Diluted	(11)	1,26	(5,76)
From continuing operations			
- Basic	(11)	2,68	(5,47)
- Diluted	(11)	2,65	(5,47)
From discontinued operations			
- Basic	(11)	(1,41)	(0,29)
- Diluted	(11)	(1,39)	(0,29)

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

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

CONSOLIDATED BALANCE SHEETS

(in € million)	**Note**	**At 31 March 2006**	**At 1 April 2005 (**)**	**At 31 March 2005 (*)**
ASSETS				
Goodwill	(12)	3 323	3 417	3 417
Intangible assets, net	(12)	1 197	1 222	1 222
Property, plant and equipment, net	(13)	1 361	1 707	1 707
Equity method investments and other investments, net	(14)	99	118	118
Other non-current assets, net	(15)	1 250	1 290	1 935
Deferred taxes	(9)	1 249	1 204	1 207
Total non-current assets		**8 479**	**8 958**	**9 606**
Inventories, net	(16)	1 488	1 654	1 654
Construction contracts in progress, assets	(17)	2 229	2 601	2 601
Trade receivables, net	(18)	2 291	2 323	2 392
Other current assets, net	(19)	1 476	1 645	1 424
Cash and cash equivalents		1 301	1 404	1 404
Total current assets		**8 785**	**9 627**	**9 475**
Assets held for sale	(24)	**1 144**	**637**	**-**
TOTAL ASSETS		**18 408**	**19 222**	**19 081**
LIABILITIES				
Shareholders' equity		1 782	1 515	1 398
Minority interests		58	68	68
Total equity		**1 840**	**1 583**	**1 466**
Bonds reimbursable with shares		**-**	**-**	**133**
Non-current provisions	(20)	581	680	680
Accrued pension and retirement benefits	(21)	792	824	824
Non-current financial debt	(22)	2 211	2 598	3 281
Deferred taxes	(9)	39	59	59
Total non-current liabilities		**3 623**	**4 161**	**4 844**
Current provisions	(20)	1 539	1 642	1 642
Current financial debt	(22)	360	483	486
Construction contracts in progress, liabilities	(17)	5 401	5 520	5 484
Trade payables		2 872	3 316	3 437
Other current liabilities	(23)	1 630	1 880	1 589
Total current liabilities		**11 802**	**12 841**	**12 638**
Liabilities directly associated with assets held for sale	(24)	**1 143**	**637**	**-**
TOTAL LIABILITIES		**18 408**	**19 222**	**19 081**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005
(**) Amended balance sheet at 1 April 2005 pursuant to the first time application of IAS 32-39 and IFRS 5 standards (see Note 4 – b)

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

ALSTOM

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in € million)	**Year ended 31 March 2006**	**Year ended 31 March 2005 (*)**
Net profit (loss) from continuing operations	**379**	**(595)**
Depreciation and amortisation	424	497
Changes in pension assets and accrued pension / retirement benefits, net	-	9
Net (gain) loss on disposal of non current assets and investments (1)	(147)	(51)
Share in net income (loss) of equity investees (net of dividends received)	1	-
Changes in deferred tax	(30)	145
Net income after elimination of non cash items	**627**	**5**
Changes in net working capital (2)	**158**	**189**
Net cash provided by operating activities - continuing operations	**785**	**194**
Proceeds from disposals of property, plant and equipment	60	51
Capital expenditure (a)	(294)	(255)
Decrease (increase) in other non current assets (3)	22	(361)
Cash expenditure for acquisition of investments, net of net cash acquired	(13)	-
Cash proceeds from sale of investments, net of net cash sold (4)	257	928
Net cash provided by investing activities - continuing operations	**32**	**363**
Capital increase	6	2 022
Issuance (conversion) of bonds reimbursable with shares	-	(19)
Issuance (repayment) of short-term and long-term borrowings (b) (4)	(369)	(2 310)
Issuance (repayment) of obligation under finance lease	(42)	(41)
Dividends paid including minorities	(4)	(5)
Net cash used in financing activities - continuing operations	**(409)**	**(353)**
Decrease in cash and cash equivalents - discontinued operations (5)	(215)	(198)
Transfer to assets held for sale (6)	(317)	-
Net effect of exchange rate	24	15
Other changes (c)	(3)	34
Increase (Decrease) in cash and cash equivalents	**(103)**	**55**
Cash and cash equivalents at the beginning of the period	**1 404**	**1 349**
Cash and cash equivalents at the end of the period	**1 301**	**1 404**
Cash paid for income taxes	85	92
Cash paid for net interest (d)	171	204
Net debt variation analysis:		
Increase (decrease) in cash and cash equivalents	(103)	55
Increase (decrease) in short-term investments (c)	(2)	(24)
(Issuance) repayment of short-term and long-term borrowings (b)	369	2 310
(Issuance) repayment of obligation under finance lease	42	41
Net cash used in financing activities - discontinued operations	103	(13)
Effect of exchange rate	(6)	1
Decrease (increase) in net debt	403	2 370
Net debt at the beginning of the period (e)	(1 651)	(4 718)
Net debt at the end of the period (e)	(1 248)	(2 348)

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

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

(a) Including capitalisation of development costs (see Note 6)

(b) Including issuance (repayment) of securitisation of future receivables

(c) Include €2 million and €24 million of change in short-term investments as of 31 March 2006 and 31 March 2005, respectively. From 1 April 2005, short-term investments correspond to available-for-sale investments, held-to-maturity securities and trading investments included in other current assets, net (see note 19).

(d) Including cash paid related to interest on securitisation of future receivables

(e) The net debt corresponds to cash and cash equivalents and the sum of available-for-sale investments, held-to-maturity securities, trading investments (from 1 April 2005) and short-term investments (before 1 April 2005) included in other current assets (see Note 19), net of financial debt (see Note 22). The difference between the net debt at the beginning of the year ended 31 March 2006 (€1,651 million) and the net debt at the end of the year ended 31 March 2005 (€ 2,348 million) is due to the first time application of IAS 32-39 and IFRS 5 standards at 1 April 2005.

- **Cash flow movements for the year ended 31 March 2006**

(1) Of which €132 million of capital gains and losses on disposal of investments/activities and €12 million of capital gain on disposal of fixed assets (see Note 7).

(2) For the year ended 31 March 2006, changes in net working capital consist of €439 million changes in construction contracts, net, €(70) million changes in provisions, €(2) million changes in inventories, €63 million changes in trade receivables and other current assets and €(272) million changes in trade payables and other current liabilities.

(4) The €257 million of proceeds (net of €66 million of net cash sold) mainly consist of €150 million proceeds (net of €32 million of net cash sold) related to the disposal of Transport activities in Australia and New Zealand, €34 million of proceeds (net of €18 million of net cash sold) 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.

(5) See Note 10

(6) See Note 24

- **Cash flow movements for the year ended 31 March 2005**

(3) In the year ended 31 March 2005, the outflow relating to other non current assets was mainly due to the €700 million cash deposit made to secure the new Bonding Guarantee Facility Programme (see Note 15) partially offset by the repayment of other long-term deposits.

(4) In the year ended 31 March 2005, the net proceeds of €928 million were made of:
- Proceeds of €207 million related to the completion of the disposal of certain non significant entities of the former T&D sector not yet sold at 31 March 2004 and partial reimbursement of the receivables retained at 31 March 2004;
- Proceeds of €59 million related to the completion of the disposal of US entities of the former Industrial Turbines business and partial reimbursement of the escrow accounts retained at 31 March 2004;
- Other proceeds net of net cash sold of €35 million including the disposal of the freight locomotive business in Spain;
- Net debt of €627 million sold as part of the disposal of one special purpose entity in the Transport sector and the de-consolidation of two special purpose entities in the Marine sector. This disposal has generated a €627 million decrease in short-term and long-term borrowings.

(5) See Note 10

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 2004	**1,056,657,572**	**1 321**	**64**	**(1 383)**	-	-	**2**	**66**	**68**
Conversion of ORA (4)	15,473,425	14	5	-	-	-	19	-	19
Conversion of TSDDRA (5)	240,000,000	300	-	-	-	-	300	-	300
Capital decrease (6)	-	(1 175)	(64)	1 239	-	-	-	-	-
Capital increase (7)	4,185,080,412	1 464	261	-	-	-	1 725	-	1 725
Changes in Cumulative Translation Adjustments	-	-	-	-	-	(20)	(20)	1	(19)
Net profit (loss)	-	-	-	(628)	-	-	(628)	1	(627)
At 31 March 2005	**5,497,211,409**	**1 924**	**266**	**(772)**	**0**	**(20)**	**1 398**	**68**	**1 466**
Impact application IAS 32/39			112	5	-		117		117
At 1 April 2005	**5,497,211,409**	**1 924**	**378**	**(767)**	**0**	**(20)**	**1 515**	**68**	**1 583**
Conversion of ORA (1)	1,121,044	10	(10)	-	-	-	0	-	0
Consolidation of shares (2)	(5,360,161,677)	-	-	-	-	-	-	-	0
Changes in Cumulative Translation Adjustments	-	-	-	-	-	52	52	3	55
Change in scope	-	-	-	-	-	-	0	(16)	(16)
Share-based payments (3)	-	-	-	-	40	(3)	37	-	37
Net profit	-	-	-	178	-	-	178	3	181
At 31 March 2006	**138,170,776**	**1 934**	**368**	**(589)**	**40**	**29**	**1 782**	**58**	**1 840**

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

(1) 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.

(2) 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.

(3) See Note 30 – Share-based payments

At 31 March 2006, the share capital amounts to € 1,934,390,864 consisting of 138,170,776 shares with a nominal value of €14 per share. All shares are fully paid up.

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

See Note 4 b – First time application of IAS 32-39 and IFRS 5 standards at 1 April 2005

- **Net equity movement between 1 April 2004 and 31 March 2005**

(4) During the year ended 31 March 2005, 14,112,541 bonds reimbursable into shares "Obligation Remboursables en Actions" were converted into shares initially on the basis of one share for one bond and as from 16 August 2004 following completion of the capital increase with preferential subscription rights, on the basis of the adjusted ratio of 1.2559 share for one bond, resulting in the issue of 15,473,425 new shares. At 31 March 2005, 94,618,915 bonds reimbursable with shares were outstanding for an amount of €133 million.

(5) On 7 July 2004, following the European Commission's approval, the subordinated bonds reimbursable with shares "Titres Subordonnés à Durée Déterminée Remboursables en Actions" held by the French Republic were repaid into 240,000,000 new shares at a par value of €1.25.

(6) The ALSTOM shareholders' equity at 31 March 2004 constituted less than 50% of its share capital. Therefore, in accordance with article L. 225-248 of the French Code de commerce, the shareholders were requested and agreed, at the Extraordinary General Shareholders' Meeting held on 9 July 2004 not to liquidate the company by anticipation. Further, it was decided to reduce ALSTOM's share capital, due to losses, from

€1,631,815,076.25 to €456,908,221.35. This reduction in the share capital was implemented through the reduction in the nominal value of one ALSTOM ordinary share from €1.25 per share to €0.35 per share.

(7) On 12 and 13 August 2004, the Group completed two simultaneous capital increases:

- A capital increase with preferential subscription rights to be subscribed either in cash or by set-off against certain of our outstanding debt was subscribed for a total gross amount of €1,508 million as follows:

- €1,277 million gross amount consisting of 3,192,826,907 new shares issued at €0.40 having a par value of €0.35 subscribed in cash.
- €231 million gross amount consisting of 462,438,861 new shares issued at €0.50 having a par value of €0.35, subscribed by set-off against debt.

- A second capital increase which was reserved for certain Group's creditors to be subscribed by set off against certain of our outstanding debts was subscribed for a total gross amount of €240 million consisting of 480,000,000 new shares issued at €0.50 having a par value of €0.35.

On 6 December 2004, the Group completed a share capital increase reserved for its employees consisting of 49,814,644 new shares issued at a par value of €0.35.

Related costs of €40 million (net of tax of €22 million) were charged against additional paid in capital of €301 million.

At 31 March 2005, the share capital amounted to €1,924,023,993.15 consisting of 5,497,211,409 shares with a nominal value of €0.35 per share. All shares were fully paid up.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 is systems integration and through-life maintenance and service.

The principal activities of the Group are described in Note 25.

Note 2 – Basis of preparation of the consolidated financial statements

Following the coming into force of European Reporting Regulation n°1606/2002, companies listed in the European Union are 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.
Unlike the consolidated financial statements for the year ended 31 March 2005 which were prepared on the basis of the accounting principles generally accepted in France ("French GAAP"), ALSTOM's consolidated financial statements covering periods beginning 1 April 2005 are presented according to IFRS, together with comparative information related to the previous period converted to the same standards.

In compliance with IFRS 1 on first-time adoption of IFRS, the opening balance sheet at 1 April 2004 and the consolidated financial statements for the fiscal year ended 31 March 2005 have been restated in accordance with IFRS standards endorsed by the European Union at the date of preparation of the consolidated financial statements for the year ended 31 March 2006, with the exception of IAS 32-39 and IFRS 5 standards applied from 1 April 2005. The effects of the transition to IFRS are described in Note 34.

The income statement and the cash flow statement for the year ended 31 March 2005 presented as comparative information are different from the ones presented in Note 34 and in the interim consolidated financial statements at 30 September 2005 following the retrospective application of IFRS 5 standard (see Note 10).

ALSTOM consolidated financial statements for the year ended 31 March 2006 have been prepared using:
- the IAS/IFRS standards and interpretations applicable for annual periods beginning on or prior to 1 April 2005;
- the accounting policies and methods of computation as set out in Note 3;
- 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.

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 statements 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 by 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 33.

(b) Use of estimates

The preparation of the consolidated financial statements in conformity 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, pension assets and liabilities, 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 costs

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 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.

Selling and administrative expenses are excluded from production costs.

- Recognition of sales and costs

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.

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).

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.

(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 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 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 the net consolidated debt which consists of bonds, the liability component of compound instruments, other borrowings including lease-financing liabilities and cash and cash equivalents;
- 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 currencies

The individual financial statements of each Group's foreign subsidiaries, joint ventures and associates are presented in the primary economic environment in which the entity operates. Therefore the functional currency of the Group's foreign subsidiaries is 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 period end 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 the foreign currency exposure 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

Due to the strict criteria defined by the IFRS, cash flow hedge is only adopted by the Group for a very limited number of relationships which are expected to turn into firm orders in a very short term period.
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

The Group applies fair value hedge accounting to all effective hedge relationships where the exposure is attributable to recognised assets, liabilities or firm commitments.
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 correspondent 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 of twenty years in all sectors due to the long-term nature of the contracts and activities involved. The amortisation charge is reported in research and development expenses or cost of sales depending on the nature of the asset.

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.

The amount initially recognised in respect of an item of property, plant and equipment is allocated to its significant parts. Each part represents a component with a specific useful life.

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	20-25
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, 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 the 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 exist indications that they may be impaired.

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

The impairment test methodology is based on a comparison between the recoverable value of each of the 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 25.

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 financial assets when their initial maturity is more than three months and 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 securities 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 initially 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.
Bank overdrafts which are repayable on demand form an integral part of the cash management and are therefore included as a component of cash and cash equivalents.

(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 and are accounted for using the balance sheet method. Deferred tax liabilities are generally recognised for all taxable temporary differences and 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 and 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 liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and investments in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

(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 to be recognised 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 costs are accrued when reduction or 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 costs include employees' severance and termination benefits, estimated facility closing costs and write-off of assets.

(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, the 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 initially 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 exposure 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 (excluding the effect of non market-based conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is based on Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. It is expensed in income from operations with a counterpart in equity. Fair value is measured using the binomial pricing model.

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) Employee benefits

The Group provides various types of post-employment and other long-term benefits to its employees. The type of benefits offered to an individual employee is related to local legal requirements as well as operating practices of the specific subsidiaries.

Termination benefits are generally lump sum payments based upon an individual's years of credited service and annualised salary at retirement or termination of employment.

Defined benefit plans

For single employer defined benefit plans, the fair value of plan assets is assessed annually. 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 turn-over 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.
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.

In addition, the Group provides post-retirement benefits (mainly post-retirement medical benefits plans) to a number of retired employees in certain countries principally in the United-States under plans which are predominantly unfunded.

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

Defined contribution plans

For defined contribution plans, the Group pays contributions to independently administered funds at a fixed percentage of employees' pay. The related pension cost, recorded as incurred in the income from operations, represents the contributions paid by the Group to these funds.

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 prior service cost and actuarial gains/losses are recognised immediately and no corridor is applied.

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 pension 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 will 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 if 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) by the weighted average number of outstanding shares during the period.

Diluted earnings per share are computed by dividing the period net profit (loss), adjusted by the financial cost (net of tax) of dilutive instruments, by the weighted average number of shares outstanding plus the effect of any dilutive instruments.

(x) Accounting standards, amendments and interpretations published but not yet come into force/ endorsed by the European Union

The Group has not opted for an early application of the standards and interpretations issued by the IASB, not yet operative for the preparation of the financial statements for the year ended 31 March 2006:

Standards and interpretation becoming effective for annual periods beginning on or after 1 January 2006

- Amendment to IAS 19 – Employee benefits; actuarial gains and losses, group plans and disclosures".
  The Group has not yet decided whether or not to use the option providing for the elimination of the corridor method and for the recognition of actuarial gains and losses directly in equity.
  Additional requirements regarding disclosures will be fulfilled.
- IAS 21 revised: "effect of changes in foreign exchange rates"
  This revision clarifies the requirements of IAS 21 regarding an entity's investment in a foreign operation.
  An earlier application of this revision would have had no significant impact on the consolidated financial statements.
- Amendment to IAS 39 on fair value option
  According to this amendment, in limited circumstances, an entity may designate a financial asset or liability as being at fair value through the income statement on initial recognition. The group does not expect any significant impact due to the enforcement of this amendment.
- 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". To date, the Group has not assessed the possible impacts of this interpretation.

Interpretation becoming effective for annual periods beginning on or after 1 March 2006

- IFRIC 7 " Applying the restatement approach under IAS29 Financial Reporting in Hyperinflationary economies"
  The Group does not expect the implementation of this interpretation to have a material impact.

Interpretation becoming effective for annual periods beginning on or after 1 May 2006

- IFRIC 8 "Scope of IFRS 2 Share-based payments"
  The group does not anticipate any material impact from clarifications made with respect to the scope of IFRS 2.

Standards becoming effective for annual periods beginning on or after 1 January 2007

- IFRS 7 "Financial instruments disclosures"
- Amendment to IAS 1 "Capital disclosures"

The Group has not yet decided whether it will apply these new disclosure requirements in the financial statements for the financial year ended 31 March 2007 or in the financial statements for the following financial year.

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 of 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".

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

	At 31 March 2006		At 31 March 2005	
€for 1 monetary unit	**Average**	**Closing**	**Average**	**Closing**
British pound	1.465784	1.435956	1.463325	1.452433
Swiss franc	0.643819	0.632871	0.650036	0.645745
US dollar	0.825792	0.826173	0.791901	0.771367
Brazilian real	0.360145	0.377223	0.278889	0.287584
Canadian dollar	0.694713	0.710026	0.621966	0.635445
Australian dollar	0.618726	0.588339	0.585581	0.596552

Note 4 – Impacts of first time adoption of IFRS

(a) Options taken at first-time adoption of IFRS at 1 April 2004 (transition date)

The 2004/05 consolidated financial statements have been restated in accordance with IFRS 1 – First-time Adoption of International Financial Reporting Standards, based on the IAS/IFRS applicable for annual periods beginning on or prior to 1 April 2005.

To prepare the opening IFRS balance sheet at 1 April 2004 and the 2004/05 restated closing balance sheet and income statement, the Group has applied the following options/exemptions as authorised by IFRS 1:

Employee benefits
The Group has elected to adopt the complete retrospective application of IAS 19.

Business combinations
The Group has elected not to apply IFRS 3 retrospectively to past Business combinations.

Financial instruments
The Group has elected not to restate comparative information for IAS 32-39 standards. Comparative information does not comply with these standards in the first year of transition 2004/05.

Fair value or revaluation at deemed cost of property, plant and equipment net and other intangible assets net
The Group has decided not to apply the exemption provided for in IFRS 1, allowing fair value of property, plant and equipment and intangible assets to be used as their deemed cost in the IFRS opening balance sheet at 1 April 2004. Therefore, the option chosen by the Group has no impact on equity in the IFRS opening balance sheet at 1 April 2004.

Cumulative translation differences
The cumulative translation difference at 1 April 2004 has been set to zero through the consolidated reserves, leaving the shareholder's equity unchanged. The gain or loss on a subsequent disposal of any foreign operation will therefore exclude translation differences that arose before 1 April 2004 and include later translation differences.

Share-based payments
The Group has elected to apply IFRS 2 standard from 1 April 2004 for all plans granted after 7 November 2002 and not fully vested at 1 January 2005.

The effects of the transition to IFRS are described in Note 34.

(b) First time application of IAS 32-39 and IFRS 5 standards at 1 April 2005

As permitted by IFRS 1, the comparative information related to the year ended 31 March 2005 have been prepared in accordance with all IFRS standards and interpretations effective and endorsed by the European Union for annual periods beginning on or prior to 1 April 2005, with the exception of:

- IFRS 5 " Non current assets held for sale and discontinued operations"
- IAS 32 "Financial instruments: disclosure and presentation"
- IAS 39 "Financial instruments: recognition and measurement".

ALSTOM

These three standards have been adopted from 1 April 2005 and their impact on the balance sheet is presented below:

(in € million)	**At 31 March 2005**	**IAS 32/39**	**IFRS 5**	**At 1 April 2005**
ASSETS				
Total non-current assets	**9 606**	**2**	**(650)**	**8 958**
out of which				
- Other non-current assets, net	1 935	5	(650)	1 290
- Deferred taxes	1 207	(3)		1 204
Total current assets	**9 475**	**139**	**13**	**9 627**
out of which				
- Trade receivables, net	2 392	(69)		2 323
- Other current assets, net	1 424	208	13	1 645
Assets held for sale	**-**		**637**	**637**
TOTAL ASSETS	**19 081**	**141**	**-**	**19 222**
LIABILITIES				
Shareholders' equity and minority interests	**1 466**	**117**		**1 583**
Bonds reimbursable with shares	**133**	**(133)**		**-**
Total non-current liabilities	**4 844**	**(46)**	**(637)**	**4 161**
out of which				
- Non-current financial debt	3 281	(46)	(637)	2 598
Total current liabilities	**12 638**	**203**	**-**	**12 841**
out of which				
- Current financial debt	486	(3)		483
- Construction contracts in progress, liabilities	5 484	36		5 520
- Trade payables	3 437	(121)		3 316
- Other current liabilities	1 589	291		1 880
Liabilities directly associated with assets held for sale	**-**		**637**	**637**
TOTAL LIABILITIES	**19 081**	**141**	**-**	**19 222**

Impact of application of IAS 32-39

The impact of the application of the IAS 32-39 standards is detailed as follows:

(in € million)	Recognition of equity and debt components of ORA	Remeasurement of financial debt using effective interest rate	Immediate recognition in equity of transaction costs on equity instrument	Adoption of hedge accounting	Reclassification of investments	**IAS 32/39**
ASSETS						
Total non-current assets	**(1)**		**3**	**(5)**	**5**	**2**
out of which						
- Other non-current assets, net					5	5
- Deferred taxes	(1)		3	(5)		(3)
Total current assets	**(3)**	**(60)**	**(8)**	**215**	**(5)**	**139**
out of which						
- Trade receivables, net				(69)		(69)
- Other current assets, net	(3)	(60)	(8)	284	(5)	208
TOTAL ASSETS	**(4)**	**(60)**	**(5)**	**210**	**-**	**141**
LIABILITIES						
Capital						
Paid-in capital	117		(5)			112
Retained earnings	4	(1)		2		5
Shareholders' equity and minority interests	**121**	**(1)**	**(5)**	**2**		**117**
Bonds reimbursable with shares	**(133)**					**(133)**
Total non-current liabilities	**10**	**(56)**				**(46)**
out of which						
- Non-current financial debt	10	(56)				(46)
Total current liabilities	**(2)**	**(3)**	**-**	**208**		**203**
out of which						
- Current financial debt	(2)	(1)				(3)
- Construction contracts in progress, liabilities				36		36
- Trade payables				(121)		(121)
- Other current liabilities		(2)		293		291
TOTAL LIABILITIES	**(4)**	**(60)**	**(5)**	**210**	**-**	**141**

Recognition of equity and debt components of bonds reimbursable with shares "ORA"

Bonds reimbursable with shares issued by the Group during the year ended 31 March 2004 constitute a compound financial instrument which, in accordance with IAS 32 must be broken down between its equity component and its debt component.

Re-measurement of financial debt using effective interest rate

Under French GAAP, bank fees related to debt issues were booked as an asset in the balance sheet and amortised on a straight-line basis through financial result over the life of the debt instrument. Under IFRS, such fees are booked as a reduction of financial debt and amortised over the life of the debt instrument by the effective interest method.

Immediate recognition in equity of transaction costs on equity instruments

Under French GAAP, transaction costs related to equity instruments were booked as an asset in the balance sheet and amortised on a straight-line basis over five years.
Under IFRS, such costs are debited directly to equity.

The negative impact on equity represents the portion of costs not yet amortised under French GAAP at 31 March 2005.

Adoption of hedge accounting

Hedge accounting rules elected by the Group are described in Note 3h of the present notes.
Following the adoption of fair value hedge accounting for foreign currency hedging relationships, current assets and liabilities existing under French GAAP have been re-measured in accordance with the new rules and the following new items have been recognised:

- Derivative instruments: additional other current assets and liabilities amounting to €264 million and €192 million respectively;
- Changes in the fair value of unrecognised firm commitments: additional other current assets and liabilities amounting to €40 million and €148 million respectively.

Reclassification of investments

A portion of securities previously classified as short-term investments under French GAAP has been reclassified to non-current assets.

Impact of application of IFRS 5

At 1 April 2005, assets and liabilities attributable to leases of trains and associated equipment of the Transport sector have been classified as group of assets held for sale and were presented separately in the balance sheet as they were expected to be sold within twelve months. These leases relate to a 1995 agreement with a major European metro operator following which the Group leases trains and associated equipment for a period of 30 years starting 1997 and makes them available to this operator.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised on the classification of these operations as held for sale.

Note 5 – Changes in consolidated companies

The main changes in the scope of consolidated companies for the years ended 31 March 2005 and 31 March 2006 are the following:

- During the year ended 31 March 2005, following the obtaining of local regulatory approvals, an agreement for the disposal of certain non significant entities of the former T&D sector (disposed of during the year-ended 31 March 2004) was signed. On 8 August 2005, the sale of the former T&D Indian units was completed after the signature of a share purchase agreement which occurred in April 2005. These units have been deconsolidated from 1 August 2005.

- On 24 May 2005, a sale agreement related to the FlowSystems business was signed. On 18 August 2005, the Group completed the sale and the business has been deconsolidated from that date.

- On 2 June 2005, the Group signed a binding agreement for the sale of its transport operations in Australia and New Zealand. On 16 September 2005, the sale was completed and this business has been deconsolidated from 1 September 2005.

- On 30 September 2005, the Group signed a binding agreement to sell its Power Conversion activities to Barclays Private Equity. On 10 November 2005, the Group completed the sale and these activities have been deconsolidated from 1 November 2005.

- On 24 October 2005, ALSTOM and Austrian Energy and Environment AG have signed binding agreements for the sale of the Industrial Boilers business, part of the Power Turbo-Systems/Power Environment sector. On 30 November 2005, the sale of this business in Australia and Thailand was completed and these activities have been deconsolidated from that date.

Note 6 – Research and development expenses

Year ended 31 March *(in € million)*	2006	2005 (*)
Research and development expenses	**(364)**	**(405)**
of which		
- Capitalisation of developments costs (see Note 12)	87	70
- Amortisation of development costs (See Note 12)	(43)	(83)
- Amortisation of acquired technology	(59)	(59)
Research and development expenses before capitalisation and amortisation	**(349)**	**(333)**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

Note 7 – Other income and other expenses

Year ended 31 March *(in € million)*	2006	2005 (*)
Capital gain on disposal of investments/activities (1)	221	59
Capital gain on disposal of fixed assets	12	8
Other income	**233**	**67**
Capital loss on disposal of investments/activities (1)	(89)	(101)
Restructuring costs (2)	(80)	(350)
Pension costs (3)	(61)	(47)
Other (4)	(22)	(91)
Other expenses	**(252)**	**(589)**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

(1) In the year ended 31 March 2006, the capital gain mainly relates 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 relates to the disposal of former T&D Indian units and the FlowSystems business. It also includes costs incurred or accruals and claim adjustments on past disposals.
In the year ended 31 March 2005, capital gains include the gain on disposal of activities including the freight locomotive business in Spain. Losses on disposal include costs and provisions on guarantees, claims and price adjustments on past disposals.

(2) In the year ended 31 March 2006, restructuring costs relate to minor plans and include €7 million of write-off of assets.
In the year ended 31 March 2005, it corresponds to additional plans accrued for a net amount of €335 million relating to the downsizing of activities including closure of plants or activities and reduction in employees mainly in the Power Turbo-Systems / Power Environment and Transport sectors, and to €15 million of write-off of assets.

(3) Amortisation of actuarial gains and losses and unrecognised prior service cost, plus curtailments and settlements - See Note 21 “Retirement, termination and post-retirement benefits”.

(4) In the year ended 31 March 2005, the other expenses include costs incurred on Marine vendor financing which were covered by a release of provision in the Marine sector, treated as discontinued operations retrospectively at 31 March 2005 (see Note 10).

Note 8 – Financial income (expenses)

Year ended 31 March *(in € million)*	2006	2005 (*)
Net interest expenses (1)	(122)	(198)
Securitisation expenses	(7)	(19)
Foreign currency gain (loss)	30	(23)
Pension costs (see Note 21)	(15)	(16)
Other financial income (expenses) (2)	(108)	(125)
Financial income (expenses)	**(222)**	**(381)**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

(1) Of which interests related to obligation under finance lease of €14 million and €13 million for the years ended 31 March 2006 and 31 March 2005, respectively.

(2) Other financial income (expenses), net included fees and commitment fees paid on guarantees, syndicated loans and other financing facilities of €75 million and €105 million for the years ended 31 March 2006 and 31 March 2005, respectively.

Note 9 – Taxation

(a) Analysis by nature

Year ended 31 March *(in € million)*	2006	2005 (*)
Current income tax charge	(155)	(18)
Deferred income tax (charge) credit	30	(145)
Income tax charge	**(125)**	**(163)**
Effective tax rate	**40,7%**	**-**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

(b) Effective income tax rate

The effective income tax rate can be analysed as follows:

Year ended 31 March *(in € million)*	2006	%	2005 (*)	%
Pre-tax income (loss) from continuing operations	**505**		**(432)**	
Pre-tax loss from discontinued operations	**(198)**		**(32)**	
Statutory income tax rate of the parent company	34,43%		34,93%	
Expected tax (charge) credit	**(106)**		**162**	
Impact of :				
- difference in rate of taxation	45	(14,7)	13	2,8
- reduce taxation of capital gain (non recognised losses on disposals)	-	-	(23)	(5,0)
- non recognition of deferred tax assets and change in estimate of tax assets and liabilities	(18)	5,9	(228)	(49,1)
- tax rate change impact on deferred tax balance	(14)	4,6	-	-
- other permanent differences	(32)	10,4	(87)	(18,8)
Income tax charge	**(125)**		**(163)**	
Effective tax rate	**40,7%**		**-**	

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

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 2005 (*)	At 1 April 2005 (**)	Deferred income tax (charge) credit	Changes in scope of consolidation	Translation Adjustments and other changes	At 31 March 2006
Accelerated depreciation	78	78	4	(2)	2	82
Intangible assets	343	343	(20)	-	(9)	314
Profit sharing, annual leave and pension accrual not yet deductible	109	109	(6)	(5)	4	102
Provisions and other expenses not currently deductible	482	482	95	(6)	(5)	566
Contract provisions taxed in advance	55	55	(8)	-	3	50
Tax loss carry forwards	1 504	1 504	70	(38)	(61)	1 475
Other	112	121	61	(1)	26	207
Total gross Deferred tax assets	**2 683**	**2 692**	**196**	**(52)**	**(40)**	**2 796**
Unrecognised deferred tax assets	**(920)**	**(920)**	**(117)**	**39**	**79**	**(919)**
Netting by tax grouping or by legal entity	**(556)**	**(568)**	**(60)**	**-**	**-**	**(628)**
Deferred tax assets	**1 207**	**1 204**	**19**	**(13)**	**39**	**1 249**
Gross Deferred tax liabilities	**(615)**	**(627)**	**(49)**	**4**	**5**	**(667)**
Netting by tax grouping or by legal entity	**556**	**568**	**60**	**-**	**-**	**628**
Deferred tax liabilities	**(59)**	**(59)**	**11**	**4**	**5**	**(39)**
Net deferred assets	**1 148**	**1 145**	**30**	**(9)**	**44**	**1 210**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005
(**) Amended balance sheet at 1 April 2005 pursuant to the first time application of IAS 32-39 and IFRS 5 standards (see Note 4 – b)

The Group is 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 shows 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.

The basis of tax loss carry forward by maturity is as follows:

At 31 March *(in € million)*		**2006**	**2005**
Expiring within	1 year	24	36
	2 years	33	26
	3 years	184	34
	4 years	218	182
	5 years and more	1 080	1 532
	Not subject to expiry	2 730	2 679
Total		**4 269**	**4 489**

The basis of tax losses carry forward after valuation allowance amounts to €1,720 million; of this amount €783 million expires within 15 years and €937 million is not subject to expiry. The aggregate losses incurred over the last four years have led to a detailed review by jurisdiction of the deferred tax assets. This review took into account current and past performance, length of carry back, carry forward and expiry periods, existing contracts in the order book, budget and three years plan. This review led to a valuation allowance on deferred tax assets of €919 million at 31 March 2006 (€920 million at 31 March 2005). Most of the deferred tax assets currently subject to valuation allowance remain available to be utilised in the future.

Note 10 – Discontinued operations

The operations of the Marine sector have been classified as discontinued operations in the year ended 31 March 2006 and retrospectively in the year ended 31 March 2005. They are analysed as follows:

Year ended 31 March ***(in € million)***	**2006**	**2005 (*)**
Sales	**439**	**607**
Cost of sales	(434)	(680)
Selling expenses	(10)	(13)
Research and development expenses	(3)	(3)
Administrative expenses	(7)	(15)
Loss from operations	**(15)**	**(104)**
Other income (expenses)	(187)	89
Loss before interest and taxes	**(202)**	**(15)**
Financial income (expenses), net	4	(17)
Pre-tax loss	**(198)**	**(32)**
Income tax charge (1)	-	-
Net loss	**(198)**	**(32)**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

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

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

Year ended 31 March ***(in € million)***	**2006**	**2005 (*)**
Net cash used in operating activities	(199)	(204)
Net cash provided by (used in) investing activities	84	(10)
Net cash provided by (used in) financing activities	(103)	13
Net effect of exchange rate	(2)	3
Other changes	5	-
Decrease in cash and cash equivalents	**(215)**	**(198)**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

Note 11 – 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:

Year ended 31 March	2006	2005 (*)
Earnings *(in € million)*		
Earnings for the purposes of basic earnings per share	178	(628)
Effect of dilutive potential ordinary shares:		
- Financial interests related to bonds reimbursable with shares, net of tax	1	-
Earnings for the purpose of diluted earnings per share	**179**	**(628)**
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	140 401 599	108 978 200
Effect of dilutive potential ordinary shares:		
- Stock options (1)	1 434 534	-
- Free shares	225 000	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**142 061 133**	**108 978 200**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

(1) Stock options taken into account for the calculation of the dilutive earnings per share only relate to plan 7 (see Note 30), the other plans being out of the money.

(b) From continuing operations

Year ended 31 March *(in € million)*	2006	2005 (*)
Earnings for the purposes of basic earnings per share	178	(628)
Less: loss for the year from discontinued operations	198	32
Earnings for the purposes of basic earnings per share from continuing operations	**376**	**(596)**
Effect of dilutive potential ordinary shares:		
- Financial interests related to bonds reimbursable with shares, net of tax	1	-
Earnings for the purpose of diluted earnings per share from continuing operations	**377**	**(596)**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

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

(c) From discontinued operations

For the year ended 31 March 2006, basic earnings per share for the discontinued operations is €(1,41) per share (€(0,29) per share for the year ended 31 March 2005) and diluted earnings per share for the discontinued operations is €(1,39) per share (€(0,29) per share for the year ended 31 March 2005), based on the loss from discontinued operations of €198 million (€32 million for the year ended 31 March 2005) and the denominators detailed above for the basic and diluted earnings per share.

Note 12 – Goodwill and intangible assets, net

(a) Goodwill

(in € million)	**Net value at 31 March 2005 (*)**	**Acquisitions/ Disposals**	**Impairment**	**Translation adjustments and other changes**	**Transfer to assets held for sale**	**Net value at 31 March 2006**
Power Turbo-Systems/ Power Environment	818	(14)	-	-	-	804
Power Service	1 991	1	-	-	-	1 992
Transport	526	(3)	-	4	-	527
Marine	2	-	(2)	-	-	-
Power Conversion	80	(80)	-	-	-	-
Goodwill	**3 417**	**(96)**	**(2)**	**4**	**-**	**3 323**
of which						
Gross value	3 417	(96)	-	4	(2)	3 323
Impairment	-	-	(2)	-	2	-

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

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 compares the fair value of each sector to its carrying amount.

The main assumptions used to assess the recoverable amounts of goodwill are as follows:

	Power Turbo-Systems/ Power Environment	**Power Service**	**Transport**
Net carrying amount of goodwill at 31 March 2006 (in €million)	804	1,992	527
Value elected as representative of the recoverable value of the CGU	fair value	fair value	fair value
Number of years over which cash flow estimates are used	3 years	3 years	3 years
Extrapolation period of cash flow estimates	7 years	7 years	7 years
Long term growth rate at 31 March 2006	2.00%	2.00%	2.00%
Long term growth rate at 31 March 2005	1.50%	1.50%	1.50%
After tax discount rate at 31 March 2006 (1)	8.50%	8.50%	8.50%
After tax discount rate at 31 March 2005 (1)	9.50%	9.50%	9.50%

(1) The application of pre-tax discount rates to pre-tax cash flows leads to the same valuation of cash generating units.

The valuation supports the Group's opinion that goodwill is not impaired.

Had the assessment of the fair value been made with the same growth rates and discount rates as at 31 March 2005, no impairment loss would have had to be recognised.

At 30 September 2005, an assessment of the value of the Marine sector under the prevailing market conditions has been performed, incorporating more conservative assumptions on terms and conditions of future contracts. This assessment led to an impairment of goodwill for an amount of €2 million and the residual fixed assets for an amount of €85 million.

At 31 March 2006, all assets of the Marine sector have been classified as assets held for sale (see Note 24).

(b) Intangible assets, net

(in € million)	**Capitalised development costs**	**Acquired Intangible assets**	**Total**
Cost			
At 31 March 2005 (*)	**436**	**1 219**	**1 655**
Additions / Disposals	87	6	93
Translation adjustments and other changes	(13)	2	(11)
Transfer to assets held for sale	-	(6)	(6)
At 31 March 2006	**510**	**1 221**	**1 731**
Amortisation			
At 31 March 2005 (*)	**(135)**	**(298)**	**(433)**
Additions / Reductions	(43)	(66)	(109)
Translation adjustments and other changes	3	-	3
Transfer to assets held for sale	-	5	5
At 31 March 2006	**(175)**	**(359)**	**(534)**
Carrying amount			
At 31 March 2005 (*)	**301**	**921**	**1 222**
At 31 March 2006	**335**	**862**	**1 197**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

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.

Note 13 – Property, plant and equipment, net

(in € million)	At 31 March 2005 (*)	Acquisitions/ Depreciation/ Impairments	Disposals	Changes in scope of consolidation	Translation adjustments and other changes	Transfer (2)	At 31 March 2006
Land	146	-	(20)	(7)	-	(6)	113
Buildings	1 390	23	(53)	(47)	8	(148)	1 173
Machinery and equipment	2 248	99	(237)	(89)	(22)	(101)	1 898
Tools, furniture, fixtures and other	695	90	(177)	(47)	13	(23)	551
Gross value	**4 479**	**212**	**(487)**	**(190)**	**(1)**	**(278)**	**3 735**
Land	(9)	(10)	1	-	7	6	(5)
Buildings	(599)	(119)	37	18	(7)	143	(527)
Machinery and equipment	(1 718)	(170)	228	72	31	97	(1 460)
Tools, furniture, fixtures and other	(446)	(58)	82	36	(17)	21	(382)
Accumulated depreciation and impairment (1)	**(2 772)**	**(357)**	**348**	**126**	**14**	**267**	**(2 374)**
Land	137	(10)	(19)	(7)	7	-	108
Buildings	791	(96)	(16)	(29)	1	(5)	646
Machinery and equipment	530	(71)	(9)	(17)	9	(4)	438
Tools, furniture, fixtures and other	249	32	(95)	(11)	(4)	(2)	169
Net value	**1 707**	**(145)**	**(139)**	**(64)**	**13**	**(11)**	**1 361**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

(1) The €357 million depreciation includes €85 million impairment of fixed assets attributable to the Marine sector which have then been transferred to assets held for sale (see Note 12-a).

(2) Transfer to assets held for sale - see Note 24

At 31 March 2006 and 31 March 2005, finance leases by nature are as follows:

(in € million)	At 31 March 2006	At 31 March 2005 (*)
Land	-	2
Buildings	169	199
Machinery and equipment	22	36
Tools, furniture, fixtures and other	18	24
Net value of finance leases	**209**	**261**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

Note 14 – Equity method investments and other investments, net

(a) Equity method investments

(in € million)	At 31 March 2006	At 31 March 2005	% interest	Share in net income
Termoeléctrica del Golfo and Termoeléctrica Peñoles	66	66	49.5	-
Other	4	4	-	(1)
Total	**70**	**70**	**-**	**(1)**

(b) Other investments, net

(in € million)	At 31 March 2006			At 31 March 2005	% interest
	Gross	Impairment	Net	Net	2006
Ballard Power Systems Inc (1)	-	-	-	7	-
Birecik Baraj ve Hidroelektrik Santrali Tesis ve Isletme AS (2)	-	-	-	15	-
Tramvia Metropolita SA (3)	8	-	8	8	25,35%
Tramvia Metropolita del Besos (3)	8	-	8	8	25,35%
Other (4)	24	(11)	13	10	-
Total	**40**	**(11)**	**29**	**48**	

(1) During the fiscal year ended 31 March 2006, the Group disposed of its 1.8% shareholding in Ballard. At 31 March 2005, the interests in Ballard Power Systems Inc were depreciated to align with the stock price at 31 March 2005 on the Toronto Stock Exchange.

(2) During the fiscal year ended 31 March 2005, the Group signed a sale agreement for its 13.6% shareholding in Birecik Baraj ve Hidroelektrik Santrali Tesis ve Isletme AS for a consideration close to the net book value but subject to the obtaining of approvals from external parties. These approvals have been obtained subsequent to 31 March 2005.

(3) The remaining 74.65% of interest in these two entities are held by a pool of construction companies having direct control on the companies.

(4) No other investments' net value exceeds €5 million.

Information on the main other investments at 31 March 2006 is based on the most recent financial statements available and is the following:

(in € million)	Net income	Share in Net Equity
Tramvia Metropolita SA	4	9
Tramvia Metropolita del Besos	1	8

Note 15 – Other non-current assets, net

(in € million)	**At 31 March 2006**	**At 1 April 2005 (**)**	**At 31 March 2005 (*)**
Deposits securing the Bonding Guarantee Facility (1)	700	700	700
Other long term loans and deposits	91	129	129
Long-term rental (2)	-	-	650
Pension assets (see Note 21)	387	374	374
Held-to-maturity securities	-	5	-
Other	72	82	82
Other non-current assets, net	**1 250**	**1 290**	**1 935**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

(**) Amended balance sheet at 1 April 2005 pursuant to the first time application of IAS 32-39 and IFRS 5 standards (see Note 4 – b)

(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 new Bonding Guarantee Facility Programme of up to €8 billion implemented during the year ended 31 March 2005 (see Note 26 (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. The release of this collateral will depend on the release of the bonds and guarantees issued under the programme.

(2) At 31 March 2005, this non-current asset related to leases of trains and associated equipment to a European metro operator. From 1 April 2005, it is considered as a group of assets held for sale and is therefore reclassified in non-current assets held for sale (see Notes 4 –b and 24).

Note 16 – Inventories, net

(in € million)	**At 31 March 2006**	**At 31 March 2005 (*)**
Raw materials and supplies	582	629
Work in progress	1 134	1 154
Finished products	47	69
Inventories, gross	**1 763**	**1 852**
Valuation allowance	(275)	(198)
Inventories, net	**1 488**	**1 654**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

Note 17 – Construction contracts in progress, net

(in € million)	**At 31 March 2006**	**At 1 April 2005 (**)**	**At 31 March 2005 (*)**
Construction contracts in progress, assets	2 229	2 601	2 601
Construction contracts in progress, liabilities	(5 401)	(5 520)	(5 484)
Construction contracts in progress, net	**(3 172)**	**(2 919)**	**(2 883)**
Contract costs incurred plus recognised profits less recognised losses to date	32 593	33 968	33 968
Less progress billings	(33 640)	(34 994)	(34 953)
Construction contracts in progress before advances received from customers	***(1 047)***	***(1 026)***	***(985)***
Advances received from customers	(2 125)	(1 893)	(1 898)
Construction contracts in progress, net	**(3 172)**	**(2 919)**	**(2 883)**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005
(**) Amended balance sheet at 1 April 2005 pursuant to the first time application of IAS 32-39 and IFRS 5 standards (see Note 4 – b)

Note 18 – Trade receivables, net

(in € million)	**At 31 March 2006**	**At 1 April 2005 (**)**	**At 31 March 2005 (*)**
Trade receivables, gross	2 369	2 463	2 532
Valuation allowance	(78)	(140)	(140)
Trade receivables, net	**2 291**	**2 323**	**2 392**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005
(**) Amended balance sheet at 1 April 2005 pursuant to the first time application of IAS 32-39 and IFRS 5 standards (see Note 4 – b)

Included in trade receivables are retentions for an amount of €163 million as at 31 March 2006.

Note 19 – Other current assets, net

(in € million)	At 31 March 2006	At 1 April 2005 (**)	At 31 March 2005 (*)
Advances paid to suppliers	360	339	345
Corporate income tax	122	108	108
Other tax	335	298	298
Prepaid expenses	127	171	193
Other receivables	312	399	465
Derivatives	135	264	-
Remeasurement of off balance sheet commitments	63	40	-
Available-for-sale investments	16	13	-
Held-to-maturity securities	6	13	-
Short-term investments	-	-	15
Other current assets, net	**1 476**	**1 645**	**1 424**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005
(**) Amended balance sheet at 1 April 2005 pursuant to the first time application of IAS 32-39 and IFRS 5 standards (see Note 4 – b)

Note 20 – Provisions

(in € million)	At 31 March 2005 (*)	Addition	Releases	Applied	Translation adjustments and other	Transfers (1)	At 31 March 2006
Warranties	602	293	(126)	(184)	(43)	(4)	538
Litigation and claims	633	157	(95)	(112)	(70)	(12)	501
Other risks on contracts	407	403	(201)	(100)	(8)	(1)	500
Current provisions	**1 642**	**853**	**(422)**	**(396)**	**(121)**	**(17)**	**1 539**
Tax risks and litigation	28	14	(5)	(1)	7	(2)	41
Restructuring	440	91	(52)	(198)	(19)	0	262
Other provisions non-current	212	150	(54)	(27)	14	(17)	278
Non-current provisions	**680**	**255**	**(111)**	**(226)**	**2**	**(19)**	**581**
Total Provisions	**2 322**	**1 108**	**(533)**	**(622)**	**(119)**	**(36)**	**2 120**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

(1) Transfers to liabilities directly associated with assets held for sale

Current provisions - Provisions on contracts

GT24/GT26 heavy-duty gas turbines

During the year ended 31 March 2006, the Group utilised €115 million provisions and retained €263 million provisions in respect of these turbines at 31 March 2006.

During the year ended 31 March 2005, the Group utilised €359 million of provisions and retained at 31 March 2005, after exchange rate effects, €379 million provisions in respect of these turbines. The mitigation plan related to formerly identified potential risks which were not covered by provisions has been completed during the fiscal year ended 31 March 2005.

Non-current provisions

Restructuring

At 31 March 2006, restructuring provisions amount to €262 million after a net addition of €39 million and a utilisation of €198 million during the year.

During the year ended 31 March 2005, restructuring plans were adopted for an amount of €363 million mainly in Power Turbo-Systems / Power Environment and Transport sectors. At 31 March 2005, provisions of €440 million were retained after a utilisation in the year of €289 million.

Note 21 — Retirement, termination and post-retirement benefits

Change in benefit obligations

At 31 March *(in € million)*	**2006**	**2005 (*)**
Benefit Obligations at beginning of year	**(4 256)**	**(4 137)**
Service cost	(85)	(80)
Plan participant contributions	(27)	(29)
Interest cost	(215)	(217)
Plan amendments	-	(5)
Business combinations / disposals	(3)	(17)
Curtailment	27	17
Settlements	30	102
Actuarial loss	(294)	(274)
Benefits paid	225	283
Foreign currency translation	(3)	101
Benefit Obligations at end of year	**(4 601)**	**(4 256)**
Of which:		
Funded schemes	(3 702)	(3 362)
Unfunded schemes	(899)	(894)

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

Change in plan assets

At 31 March *(in € million)*	2006	2005 (*)
Fair value of plan assets at beginning of year	**2 827**	**2 800**
Expected return on assets	200	200
Actuarial gain	193	86
Company contributions	112	99
Plan participant contributions	26	28
Business Combinations /disposals	7	19
Settlements	(27)	(115)
Benefits paid from plan assets	(166)	(210)
Foreign currency translation	(4)	(80)
Fair value of plan assets at end of year	**3 168**	**2 827**
Funded status of the plan	**(1 433)**	**(1 429)**
Unrecognised actuarial loss (gain)	1 050	1 009
Unrecognised past service cost	(24)	(30)
Impact of asset ceiling	(2)	-
Transfer to liabilities associated with assets held for sale	4	-
(Accrued) prepaid benefit cost after asset ceiling	**(405)**	**(450)**
Of which:		
Accrued pension and retirement benefits	**(792)**	**(824)**
Pension assets (see Note 15)	**387**	**374**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

Components of plan assets

At 31 March	2006		2005 (*)	
	(in €million)	%	(in €million)	%
Equities	1 597	50.4	1 430	50.6
Bonds	1 175	37.1	1 032	36.5
Properties	257	8.1	246	8.7
Others	139	4.4	119	4.2
Total	**3 168**	**100**	**2 827**	**100**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

Assumptions (weighted average rates)

The actuarial assumptions used vary by business unit and country, based upon local considerations.

At 31 March	2006	2005
Discount rate	4.72	5.09
Rate of compensation increase	2.68	2.97
Expected return on plan assets	6.46	7.07

Regarding the Expected return of plan assets, the same basis has been applied in all countries where the Group has assets covering its pension liabilities. The Expected return on plan assets is based on long-term market expectations taking into account the asset allocation of each fund.

The Group's health care plans are generally contributory with participants' contributions adjusted annually. The healthcare trend rate is assumed to be 9% in the year ended 31 March 2006 and reducing thereafter to an ultimate rate of 5.5% from 2010 onwards.

A 100 basis point increase in assumed healthcare cost trend rates would lead to a 6% increase of the service cost and a 4.6% increase of the benefit obligation for post-employment medical schemes. On the contrary, a 100 basis point decrease would lead to a 5% decrease of the service cost and a 4.6% decrease of the benefit obligation for such schemes.

The following table shows the amounts of total benefit expense for each of the two years ended 31 March 2005 and 2006.

Year ended 31 March *(in € million)*	2006	2005 (*)
Service cost	(85)	(80)
Interest cost	(215)	(217)
Expected return on plan assets	200	200
Amortisation of actuarial net loss	(68)	(57)
Amortisation of unrecognised past service cost	3	5
Impact of asset ceiling	(2)	-
Curtailments/Settlements (1)	6	4
Net benefit expense	**(161)**	**(145)**
Multi-employer contributions and defined contributions (2)	(90)	(89)
Total benefit expense	**(251)**	**(234)**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

(1) Exclude €19 million of curtailment relating to the disposal of Power Conversion activities, classified in capital gain on disposal of investments/activities (see Note 7).
(2) At 31 March 2005, the defined contribution expense of €68 million was not disclosed in the French GAAP/IFRS reconciliation.

The total cash spent in the year ended 31 March 2006 for defined benefits and defined contributions plans was €261 million.

The company's best estimate of defined benefits and defined contributions expected to be paid in the year ended 31 March 2007 is approximately €258 million, of which €112 million of employer contributions with respect to defined benefits plans.

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

Year ended 31 March ***(in € million)***	**2006**	**2005 (*)**
Service cost	(85)	(80)
Multi-employer contributions and defined contributions	(90)	(89)
Income from operations	**(175)**	**(169)**
Amortisation of actuarial net loss	(68)	(57)
Amortisation of unrecognised past service cost	3	5
Impact of asset ceiling	(2)	-
Curtailments/Settlements	6	4
Other income (expenses) (1)	**(61)**	**(48)**
Interest cost	(215)	(217)
Expected return on plan assets	200	200
Financial income (expenses) (1)	**(15)**	**(17)**
Total benefit expense	**(251)**	**(234)**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

(1) Differences with pension costs included in other expenses (see Note 7) and pension costs included in financial expenses (see Note 8) relate to Marine activities, classified in discontinued operations.

Note 22 – Financial Debt

(a) Analysis by nature

(in € million)	**At 31 March 2006**	**At 1 April 2005 (**)**	**At 31 March 2005 (*)**
Redeemable preference shares (1)	-	205	205
ORA (debt component) (2)	5	10	-
Subordinated notes (3)	5	5	5
Bonds (3)	2 189	1 194	1 228
Bonds exchange premium (3)	-	-	(26)
Syndicated loans (4)	-	998	1 039
Bilateral loans	-	33	33
Commercial paper (5)	-	14	14
Future receivables securitised, net	-	49	49
Other borrowings facilities (6)	106	245	252
Obligations under finance leases	217	268	268
Obligations under long-term rental (7)	16	13	650
Accrued interests	33	47	50
Financial debt	**2 571**	**3 081**	**3 767**
Non current	2 211	2 598	3 281
Current	360	483	486

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005
(**) Amended balance sheet at 1 April 2005 pursuant to the first time application of IAS 32-39 and IFRS 5 standards (see Note 4 – b)

(1) On 30 March 2001, a wholly owned subsidiary of ALSTOM Holdings issued perpetual, cumulative, non voting, preference shares for a total amount of €205 million.
The preference shares had no voting rights. They were not redeemable, except at the exclusive option of the issuer, in whole but not in part, on or after the 5th anniversary of the issue date or on the 5th anniversary in case of certain limited specific pre identified events. Included in these specified events, are changes in tax laws and the issuance of new share capital.
In July 2002, a new share capital was issued triggering the contractual redemption of the preferred shares at 31 March 2006 at a price equal to their par value together with dividends accrued, but not yet paid.

At 31 March 2006, the €205 million of preferred shares are redeemed.

(2) Following the application of the IAS 32 and 39 standards from 1 April 2005, the debt component of the bonds reimbursable with shares "ORA" amounts to €5 million and €10 million at 31 March 2006 and 1 April 2005 respectively (See Note 4 - b).

(3) At 31 March 2005, the Group had:

- €5 million of Auction Rate Notes redeemable in September 2006,
- €228 million of bonds bearing a 5% coupon and redeemable at par on 26 July 2006,
- €1,000 million of bonds bearing a 6.25 % coupon redeemable at par on 3 March 2010,
- €(26) million of bonds exchange premium.

At 1 April 2005, the application of IAS 32-39 standards has resulted in a remeasurement of these bonds using the effective interest rate (see Note 4 – b). After remeasurement, the amounts are as follows:

- €5 million of Auction Rate Notes redeemable in September 2006,
- €231 million of bonds redeemable on 26 July 2006,
- €963 million of bonds redeemable on 3 March 2010, including the bonds exchange premium.

During the year ended 31 March 2006, the Group issued:

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

At 31 March 2006, the Group has:

- €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, including the bonds exchange premium,
- €595 million of bonds redeemable on 13 March 2009,
- €399 million of bonds redeemable on 28 July 2008,

In March 2006, two swaps of €100 million each that exchange fixed rate to floating rate have been undertaken by the Group (see note 28 - b).

(4) At 31 March 2005, the syndicated loans included:

- A 2008 Subordinated Debt Facility signed on 30 September 2003 with a syndicate of banks and financial institutions for an initial amount up to €1,563 million (the "PSDD"), and comprising a Term Loan Tranche A for €1,200 million (fully drawn until maturity or redemption), and a Revolving Facility Tranche B for €363 Million.
- A 2006 Multicurrency Revolving Credit Agreement initially signed for an amount up to €1,110 million which was available for draw down up to €704 million.

At 31 March 2006, the subordinated debt facility and the multicurrency revolving facility are fully repaid and cancelled.

On 28 February 2006, a 2010 Revolving Credit Facility has been signed. The full amount of €700 million is available for draw down as at 31 March 2006.

This revolving credit facility is subject to financial covenants described in note 22 (b).

(5) The total authorised commercial paper program was €2,500 million, availability being subject to market conditions.

At 31 March 2005, €14 million of commercial paper was outstanding from this programme. At 31 March 2006, there is no outstanding amount from this program.

(6) Other borrowings facilities included €94 million of borrowings borne by one special purpose entity at 31 March 2005 which has been reimbursed in March 2006.

(7) At 31 March 2005, the financial debt included the obligation under long-term rental relating to leases of trains and associated equipment. At 1 April 2005, following the application of IFRS 5 standard, the non-current portion of this financial obligation of €637 million (€630 million as at 31 March 2006) is considered as a liability directly associated to a non-current asset held for sale, presented separately in the balance sheet and therefore excluded from the financial debt (see Note 4 – b). The current portion of this obligation remains included in the financial debt for an amount of €16 million at 31 March 2006 and €13 million at 1 April 2005.

Analysis of the fair value by nature

The fair value of the financial debt is estimated based on either quoted market prices for traded instruments or current rates offered to the Group for debt of the same maturity.

(in € million)	**At 31 March 2006**	**At 31 March 2005**
Redeemable preference shares	-	210
ORA (debt component)	5	10
Subordinated notes	5	5
Bonds	2 299	1 244
Syndicated loans	-	1 044
Bilateral loans	-	33
Commercial paper	-	14
Future receivables securitised, net	-	49
Other borrowings facilities	106	245
Accrued interests	33	47
Fair value of financial debt, excluding fair value of finance leases (*)	**2 448**	**2 901**

(*) No fair value calculated given the number of different leases

(b) Financial covenants

At 31 March 2006, the €700 million revolving credit facility is subject to the following financial covenants:

Covenants	Minimum Interest Cover	Minimum Consolidated net worth	Maximum Net debt leverage
	(a)	(b)	(c)
		(in € million)	
March 2006	3	1,360	4.0
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 (see (d) below) to consolidated net financial expense (interest expenses including securitisation expenses less interest income but excluding interest related to obligation under finance lease, 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 31 March 2006 amounts to 8.7.

(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 €189 million, the consolidated net worth at 31 March 2006 to compare with the covenant above is €2,029 million.

(c) Ratio of total net debt (total financial debt excluding the finance lease obligations less short-term investments or trading investments and cash and cash equivalents) to EBITDA (see (d) below). The net debt leverage as at 31 March 2006 is 1.0.

(d) 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.

(c) Analysis by maturity and interest rate

Amounts presented below are based on the nominal values.

At 31 March 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)		
ORA (debt component)	5	-	-	5	-	-	-
Subordinated notes	5	5	-	-	-	-	-
Bonds	2 224	224	-	1 000	1 000	-	-
Other facilities	106	55	12	3	3	21	12
Borrowings under finance leases	233	40	22	20	18	17	116
Accrued interests	33	33	-	-	-	-	-
Financial debt	**2 606**	**357**	**34**	**1 028**	**1 021**	**38**	**128**

The nominal and effective rates of interest are as follows:

At 31 March 2006		Nominal interest rate	Effective interest rate
Subordinated notes			
		Euribor 3M + 4.9%	(*)
Bonds			
	July 2006	5.0%	3.9%
	July 2008	Euribor 3M+ 0.9%	4.5%
	March 2009	Euribor 3M+ 2.2%	5.9%
	March 2010	6.3%	7.2%

(*) No effective rate of interest is calculated for floating rate notes

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

(in € million)	**At 31 March 2006**	**At 1 April 2005 (**)**	**At 31 March 2005 (*)**
Financial debt at fixed rate	1 565	1 656	2 293
Financial debt at floating rate	1 041	1 474	1 474
Financial debt	**2 606**	**3 130**	**3 767**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005
(**) Amended balance sheet at 1 April 2005 pursuant to the first time application of IAS 32-39 and IFRS 5 standards (see Note 4 – b)

(d) Analysis by currency

Amounts presented below are based on the nominal values.

(in € million)	**At 31 March 2006**	**At 1 April 2005 (**)**	**At 31 March 2005 (*)**
Euro	2 415	2 820	2 820
US Dollar	31	132	132
British Pound	43	47	684
Other currencies	117	131	131
Financial debt	**2 606**	**3 130**	**3 767**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005
(**) Amended balance sheet at 1 April 2005 pursuant to the first time application of IAS 32-39 and IFRS 5 standards (see Note 4 – b)

Note 23 – Other current liabilities

(in € million)	**At 31 March 2006**	**At 1 April 2005 (**)**	**At 31 March 2005 (*)**
Staff and associated costs	602	663	663
Corporate income tax	146	107	107
Other taxes	169	213	213
Derivatives	87	192	-
Remeasurement of off balance sheet commitments	159	148	-
Other	467	557	606
Other current liabilities	**1 630**	**1 880**	**1 589**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005
(**) Amended balance sheet at 1 April 2005 pursuant to the first time application of IAS 32-39 and IFRS 5 standards (see Note 4 – b)

Note 24 – Assets held for sale and liabilities directly associated

At 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 sold within twelve months. Assets held for sale and liabilities directly associated amount to €613 million at 31 March 2006 and €637 million at 1 April 2005. The whole amount represents a non current asset attributable to a long-term rental on the asset side of the balance sheet and a financial obligation on the liabilities side, respectively. At 31 March 2006, these assets remain classified as assets held for sale: although some circumstances beyond the Group's control have generated an extension of the period to complete the sale, the Group remains fully committed to sell the asset.
The proceeds of disposal are still expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised.

Other groups of assets held for sale as of 31 March 2006 consist of the Marine sector following the commitment of the Company to sell to Aker Yards 75% stake in the Marine sector. The sale goes through the creation of a new company consisting of the shipyards in Saint-Nazaire and Lorient to be 75% owned by Aker Yards and 25% by ALSTOM. Aker Yards will pay €50 million for the 75% stake in the new company. The remaining stake will be sold to Aker Yards by 2010 for up to €125 million depending on the financial performance. At 31 March 2006, the effective disposal was still subject to conditions expected to be fulfilled within a short period of time after this date.
Assets and liabilities attributable to these activities have been classified as a disposal group held for sale and are presented separately in the balance sheet.
The proceeds of disposal of all ALSTOM's interests in the disposal group are expected to be lower than the net carrying amount of the relevant assets and liabilities and, accordingly, a loss of €96 million has been recorded, of which a €12 million impairment on the classification of these operations as held for sale and €84 million of additional provisions. The valuation of the proceeds from the disposal is based on ALSTOM best estimate of the value of the earn-out included in the agreement.

At 31 March 2006, the major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

(in € million)	**Leases of trains and equipment**	**Marine activities**	**Total**
Property, plant and equipment, net	-	11	11
Non current assets, net	613	5	618
Construction contracts in progress assets	-	172	172
Inventories, trade receivables and other current assets, net	-	38	38
Cash and cash equivalents	-	317	317
Assets classified as held for sale	**613**	**543**	**1 156**
Assets held for sale, impairment	-	(12)	(12)
Assets classified as held for sale, net	**613**	**531**	**1 144**
Provisions	-	124	124
Financial debt	613	2	615
Construction contracts in progress, liabilities	-	154	154
Trade payables and other current liabilities	-	250	250
Liabilities associated with assets classified as held for sale	**613**	**530**	**1 143**

The operations of the Marine sector have been classified as discontinued operations for the year ended 31 March 2006 and retrospectively for the year ended 31 March 2005 (see Note 10).

Since the transaction is structured as an asset sale, the progressive extinction of remaining assets and liabilities retained by the Group will be shown as assets held for sale and discontinued operations during the next financial year.

Note 25 – Sector and geographic data

a) Sector data

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

At 31 March 2006, the Group is organised in four sectors, following the sale of the Power Conversion business during the year.

- ***Power Turbo-Systems / Power Environment sector***

Power Turbo-Systems / Power Environment provides steam turbines, gas turbines, generators and power plant engineering, including hydro. 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.

- ***Marine sector***

Marine designs and manufactures cruise and other speciality ships.
At 31 March 2006, the Marine sector is excluded from the sector and geographic information following the classification of its operations as discontinued operations and the classification of its assets and liabilities as disposal group held for sale.

- ***Power Conversion business***

Power Conversion provides solutions for manufacturing processes and supplies high-performance products including motors, generators, propulsion systems for marine applications and drives for a variety of industrial applications. This business has been sold during the year.

Some units, not material to the sector presentation, have been transferred between sectors. The revised sector composition has not been reflected on a retroactive basis.

At 31 March 2006

(in € million)

	Power Turbo-Systems	Power Service	Transport	Power Conversion	Corporate & other (1)	Elimination	Total
Sales	5 396	3 062	5 129	276	100	(550)	13 413
Inter sector elimination	(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 loss of equity investments							(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, net							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 trading investments, available-for-sale investments, held-to-maturity investments 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. The decrease in the capital employed from 31 March 2005 to 31 March 2006 is partly explained by the reclassification in the Transport sector of assets and liabilities attributable to leases of trains and associated equipment from other non current assets at 31 March 2005 (included in the definition of capital employed) to assets held for sale and liabilities associated at 31 March 2006 (excluded from the definition of capital employed).

At 31 March 2005

(in € million)

	Power Turbo-Systems	Power Service	Transport	Power Conversion	Marine (4)	Corporate & other (1)	Elimination	Total
Sales	4 777	3 116	5 124	555	-	273	(925)	12 920
Inter sector elimination	(587)	(284)	(24)	(19)	-	(11)	925	-
Total Sales	**4 190**	**2 832**	**5 100**	**536**	**-**	**262**	**-**	**12 920**
Income from operations	**(107)**	**412**	**218**	**30**	**-**	**(82)**	**-**	**471**
Loss before interest and taxes	**(331)**	**365**	**145**	**16**	**-**	**(246)**	**-**	**(51)**
Financial income (expenses), net								(381)
Income tax								(163)
Share in net income of equity investments								-
Net loss from continuing operations								**(595)**
Net loss from discontinued operations								**(32)**
NET LOSS								**(627)**
Segmental assets (2)	**4 727**	**4 028**	**4 900**	**410**	**209**	**1 807**	**-**	**16 081**
Deferred taxes (assets)								1 207
Pension assets								374
Current financial assets, net								1 419
TOTAL ASSETS								**19 081**
Segmental Liabilities (3)	**5 166**	**2 153**	**3 968**	**368**	**502**	**675**	**-**	**12 832**
Deferred taxes (liabilities)								59
Accrued pension and retirement Benefits								824
Financial debt								3 767
Total equity								1 466
Bonds reimbursable with shares								133
TOTAL LIABILITIES								**19 081**
Capital employed	**(439)**	**1 875**	**932**	**42**	**(293)**	**1 132**	**-**	**3 249**
Capital expenditure	**88**	**24**	**85**	**5**	**-**	**53**	**-**	**255**
Depreciation and amortisation in EBIT	**135**	**69**	**172**	**12**	**-**	**64**	**-**	**452**

(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 trading investments, available-for-sale investments, held-to-maturity investments 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) In accordance with IFRS 5, Marine operations have been retrospectively classified as discontinued operations in the income statement for the year ended 31 March 2005 whereas the presentation of the associated assets and liabilities in the balance sheet at 31 March 2005 remains unchanged.

b) Geographic data

Sales and capital expenditure by country of destination

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 31 March 2005

(In € million)	Sales by country of destination	Capital Expenditure
Euro Zone (1)	4 559	117
Rest of Europe	2 227	99
North America	1 945	14
South & Central America	534	3
Asia & Pacific	2 465	19
Middle East & Africa	1 190	3
Total Group	**12 920**	**255**

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

Note 26 – Off balance sheet commitments and other obligations

a) Off balance sheet commitments

At 31 March *(in € million)*	2006	2005
Guarantees related to contracts (1)	7 572	7 526
Guarantees related to Vendor financing (2)	432	429
Discounted notes receivable	-	5
Commitments to purchase fixed assets	8	1
Other guarantees (*)	242	114
TOTAL	**8 254**	**8 075**

(*) 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

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 surety companies by way of bank guarantees, surety bonds and stand by letters of credit and are normally for defined amounts and periods and 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 instrument.

The 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 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 €2.7 billion at 31 March 2006 (€2.7 billion at 31 March 2005). These parent company guarantees are included in the above figures but are relating to liabilities already included in the consolidated accounts.

The above figures exclude:

- €4.3 billion at 31 March 2006 (€3.8 billion at 31 March 2005) of advance and progress payment related guarantees which payments have been included over time in the balance sheet in the line "Construction contracts in progress, assets or liabilities".
- €2.3 billion at 31 March 2006 (€2.1 billion at 31 March 2005) of surety and conditional bonds where the likelihood of the commitments becoming obligations is considered to be remote.
- Guarantees given by parent or group companies relating to liabilities included in the consolidated accounts.

The bonding guarantees relating to contracts, issued by banks or surety companies, amount to €11.4 billion at 31 March 2006 (€10.7 billion at 31 March 2005).

The Group put in place in August 2004 an up to €8 billion committed bonding guarantee facility programme, with an initial commitment of its banks for €6.6 billion increased to €7.4 billion since by enlarging the programme from 7 to 17 Banks and thus covering Group's needs until July 2006. This programme includes the bonds issued under the bonding line of €3.5 billion provided during the summer 2003 and new bonds to be issued over a two year period up to 27 July 2006.

The bonds issued under this programme until 27 July 2006 benefit from a €2 billion security package consisting of:

- a first loss guarantee in the form of cash collateral provided by the Group for €700 million (see Note 15); and
- a second rank security for a total amount of €1,300 million covering second losses in excess of the cash collateral, in the form of guarantees, given on a pari-passu basis by a French State guaranteed institution (Caisse Française de Développement Industriel - CFDI) for an amount of €1,250 million, and the remainder (€50 million) by a group of banks consisting of the initial banks of the programme.

This programme is revolving: any bond expiring releases capacity to issue new bonds within the €8 billion limit and the two year period.

The bonds and guarantees issued in the syndicated facility under that programme are covered by counter indemnities from ALSTOM Holdings and from the Group subsidiaries performing the contractual obligations pertaining to the guarantee.

The banks can make a claim under the security package if, and only if, a bond issued under the programme has been called by a customer, paid by the bank to the beneficiary and neither the Group subsidiaries nor ALSTOM Holdings have been in a position to indemnify the banks.

On 15 November 2005, the group amended its bonding programme for a further 2 years for an enlarged amount of up to €10.5 billion of which €9.4 billion are available to date. All bonds issued beyond the initial issuing period ending in July 2006 and up and until July 2008 will benefit from a reduced security package consisting of €175 million worth of collateral.

This additional collateral may be increased in the event that operating margin and headroom levels through 31 March 2008 do not reach targeted levels according to the following rules:

- the cash collateral will be increased if necessary to equal at any time at least 5% of the total outstanding amount of bonds issued after July 2006 if ALSTOM's operating margin failed to reach - on a 12-month rolling basis :
  - 4.75% at 31 March 2006,
  - 5.125% at 30 September 2006,
  - 5.5% at 31 March 2007,
  - 5.875% at 30 September 2007
  - and 6.25% at 31 March 2008;
- the cash collateral will be increased if necessary to equal at any time at least 10% of the total outstanding amount of bonds issued after July 2006 if

  (i) ALSTOM's operating margin failed to reach – on a 12-month rolling basis:
  - 3.75% at 31 March 2006,
  - 4.125% at 30 September 2006,
  - 4.5% at 31 March 2007,
  - 4.875% at 30 September 2007
  - and 5.25% at 31 March 2008

  or (ii) if on any such testing date or as at the date falling six months after such testing date, ALSTOM's consolidated cash headroom is not at least €800 million.

The two collaterals will merge whenever the guarantee of the French State and of ALSTOM's principal banks expires, which is expected to happen between June and September 2008, and in any case at 30 June 2009 at the latest. At that time, the global amount of cash collateral will be adjusted to:
- €175 million if ALSTOM's operating margin at 31 March 2008 is above 6.25%;
- 5% of the global amount outstanding if this margin is comprised between 5.25% and 6.25%; and
- 10% of the global amount of outstanding bonds if this margin is below 5.25%.

The issuance of new bonds under the bonding programme mentioned above is also subject to the financial covenants disclosed in the Note 22 (b).

At 31 March 2006, €88 million of bonds and guarantees relating to units sold as part of disposals were still held by the Group.

(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 €432 million at 31 March 2006.

The table below sets forth the breakdown of the outstanding off-balance sheet vendor financing by sector at 31 March 2006 and 31 March 2005:

At 31 March ***(in € million)***	**2006**	**2005**
Marine	**126**	**120**
Renaissance / Festival	*41*	*38*
Other	*85*	*82*
Transport	**306**	**309**
European metro operator (2)	*254*	*257*
Other	*52*	*52*
Total vendor financing commitments (1)	**432**	**429**

(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 31 March 2006, it corresponds to the undrawn guarantees of the financing of one subsidiary of Cruiseinvest LLC for US$13 million (€11 million) and to the undrawn portions of the credit lines formerly granted for the repossession and maintenance costs of the former Renaissance and Festival ships for €30 million.

Other

At 31 March 2006, it mainly corresponds to the guarantees provided by the Group on the financing arrangements of one cruise-ship and two high speed ferries delivered to two customers for a total amount of €85 million.

Based on known facts and on assumptions as to leases renewal and ship sales for the former Renaissance and other cruise-ships, the Group considers that the provision in respect of Marine Vendor financing of €12 million at 31 March 2006 remains adequate to cover the probable risk.

Transport

At 31 March 2006, guarantees given as part of vendor financing arrangements in Transport Sector amount to €306 million.
Included in this amount are guarantees totalling US$63 million (€52 million and €49 million at 31 March 2006 and 31 March 2005 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 (€254 million and €257 million at 31 March 2006 and 31 March 2005, respectively).

b) Lease obligations

(in € million)	Total	Within 1 year	1 to 5 years	Over 5 years
Long term rental (1)	650	13	86	551
Capital leases	335	46	118	171
Operating leases	403	57	183	163
Total at 31 March 2005	**1 388**	**116**	**387**	**885**
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**

(1) Asset related to leases of trains and associated equipment to an European metro operator (see Notes 15 and 24).

Note 27 – 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 €390 million in one particular dispute.
Some proceedings against the Group are without a specified amount. Amounts retained in respect of litigation, considered as reliable estimates of probable liabilities are included in provisions and other current liabilities. Actual costs incurred may exceed the amount of provisions for litigation 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 Marine Sector 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 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. One of the Group's subsidiaries is also the subject of a criminal action for violation of the legislation for the protection of workers against asbestos dust. Although no assurance can be given, the Group believes that those cases where it may be required to bear certain financial consequences do not represent a material exposure and therefore, no provisions have been recorded.

In addition to the foregoing, in the United States, the Group is subject to asbestos-related personal injury lawsuits which have their origin solely in the Company's purchase of certain former Power Generation businesses of ABB Ltd ("ABB") and its subsidiaries, for which the Group is indemnified by ABB. ALSTOM believes that, as of 31 March 2006, all but two of these cases involved Combustion Engineering, Inc. ("CE") (a United States ABB subsidiary) or CE's former subsidiaries. The Group is also subject in the United States to two putative class action lawsuits asserting fraudulent conveyance claims against various ALSTOM and ABB entities in relation to CE, for which it has asserted indemnification against ABB.

CE filed a “pre-packaged” plan of reorganisation in United States Bankruptcy Court in January 2003 and a modified plan of reorganisation in June 2005. The modified plan was confirmed by the Bankruptcy Court on 19 December 2005 and by the United States Federal District Court on 28 February 2006, 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.

As of 31 March 2006, the Group is subject to approximately 22 other asbestos-related personal injury lawsuits in the United States involving approximately 477 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 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, and have been named as defendants in a putative class action lawsuit in the United States that alleges violations of the U.S. federal securities laws.

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. Following receipt of these letters, the United States Securities and Exchange Commission (“SEC”) and the United States Federal Bureau of Investigation (“FBI”) began informal inquiries.

The Group also announced that its internal review had identified that losses had been significantly understated in the ATI accounts, in substantial part due to accounting improprieties. As a result, an additional charge of €73 million was recorded in ATI’s accounts for the year ended 31 March 2003 and was recorded in the Group’s Consolidated Financial Statements approved by the General Meeting of Shareholders on 2 July 2003.

On 11 August 2003, the Group announced that it had been advised that the SEC had issued a formal order of investigation in connection with its earlier review.

- 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 cruise-ship 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 artificially 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.

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 profit and loss account of the local subsidiaries of the Group.

The outcome of environmental, health and safety matters cannot be predicted with certainty and 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 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 31 March 2006, the Group has outstanding warranties and has received claims in connection with the disposals of certain of its activities including its former T&D sector (excluding Power Conversion), the Small and Medium Industrial Turbines and Industrial Steam Turbine businesses, the former Contracting Sector and part of the former Industrial Sector.

The Group has received a number of demands from the acquirer following the disposal of the 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 and an administrative procedure in Mexico concerning the alleged payments by an agent that could result in an entity sold as part of the T&D sector being prevented from bidding for government contracts for a two year period.

- 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.

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 consolidated financial statements.

Note 28 - Market related exposures

(a) Currency risk

In the course of its operations, the Group is exposed to currency risk arising from tenders for business remitted in foreign currency, and from awarded contracts or “firm commitments” under which revenues are denominated in foreign currency. The principal currencies to which the Group had significant exposure in fiscal year ended 31 March 2006 were the US dollar and Swiss Franc.

Due to these exposures, numerous cash flows of the Group are denominated in foreign currencies. The Group acquires financial instruments with off balance sheet risk solely to hedge such exposure on anticipated transactions and notably firm commitments. The instruments used are exchange rate guarantees obtained through export insurance companies, forward exchange contracts and options.

As an exception to the policy described above and subject to management approval, it may be decided in specific circumstances not to fully hedge identified exposures.

With respect to anticipated transactions:

- During the tender period, depending on the probability of obtaining the project and market conditions, the Group generally hedges a portion of its tenders using options or export insurance contracts when possible. The guarantees granted by these contracts become firm if and when the underlying tender is accepted.
- Once the contract is signed, forward exchange contracts or currency swaps are used to adjust the hedging position to the actual exposure during the life of the contract (either as the only hedging instruments or as a complement to existing export insurance contracts).

At 31 March 2006 and 31 March 2005, the nominal and fair value of foreign exchange instruments are detailed as follows:

Derivative instruments qualifying for hedge accounting (forward contracts and currency swaps)

	At 31 March 2006				**At 31 March 2005**			
(in € million)	**Purchased**		**Sold**		**Purchased**		**Sold**	
	Nominal	**Fair value**	**Nominal**	**Fair value**	**Nominal**	**Fair value**	**Nominal**	**Fair value**
- British pound	2	-	375	1	77	-	307	(7)
- Brazilian real	33	(8)	29	1	-	-	10	(1)
- Polish zloti	149	-	252	(2)	126	5	26	-
- Swedish kroner	227	(3)	279	2	285	(1)	87	-
- US dollar	713	(64)	2 462	104	557	(92)	1 995	130
- Australian dollar	163	(4)	150	3	108	-	60	(2)
- Singapore dollar	16	-	39	-	13	-	89	12
- Swiss franc	1 889	(21)	2 139	31	1 340	(5)	1 857	10
- Other	345	3	297	2	269	2	328	4
Total	**3 537**	**(97)**	**6 022**	**142**	**2 775**	**(91)**	**4 759**	**146**

Derivative instruments not qualifying for hedge accounting (forwards contracts, currency options contracts and insurance contracts)

(in € million)	At 31 March 2006				At 31 March 2005			
	Purchased		Sold		Purchased		Sold	
	Nominal	Fair value	Nominal	Fair value	Nominal	Fair value	Nominal	Fair value
- Currency option contracts - Yen	-	-	-	-	20	2	-	-
- Currency option contracts - US dollar	1	-	34	-	110	17	75	(1)
- Currency option contracts - other currencies	-	-	19	-	-	-	-	-
- Forward contracts - US dollar	112	(1)	95	-	-	-	-	-
- Forward contract - Swiss franc	95	2	9	-	-	-	-	-
- Forward contract - Swedish kroner	71	1	1	-	-	-	-	-
- Forward contract - Other currencies	56	(1)	41	-	-	-	-	-
- Insurance contracts	34	(2)	105	4	3	-	193	(2)
Total	**369**	**(1)**	**304**	**4**	**133**	**19**	**268**	**(3)**

The fair value of these instruments is the estimated amount that the Group would receive or pay to settle the related agreements, valued upon relevant yield curves and foreign exchange rates as at 31 March 2006 and 31 March 2005.

The fair value of forward exchange contracts was computed by applying the difference between the contract rate and the market forward rate at closing date to the nominal amount.

Export insurance contracts related to tenders are insurance contracts that are not marked to market. Export insurance contracts that hedge firm commitments are considered as acting as derivatives and were marked to market for the purpose of the disclosure.

At 31 March 2006, the nominal value of derivative instruments by maturity is as follows:

Derivative instruments qualifying for hedge accounting (forward contracts and currency swaps)

(in € million)	**Total**	**< 1 year**	**1 - 5 years**	**> 5 years**
- British pound	377	299	78	-
- Brazilian real	62	58	4	-
- Polish zloti	401	286	115	-
- Swedish kroner	506	365	136	5
- US dollar	3 175	2 021	1 153	1
- Australian dollar	313	170	143	-
- Singaport dollar	55	55	-	-
- Swiss franc	4 028	3 745	283	-
- Other	642	561	81	-
Total	**9 559**	**7 560**	**1 993**	**6**

Derivative instruments not qualifying for hedge accounting (forwards contracts, currency options contracts and insurance contracts)

(in € million)	Total	< 1 year	1 - 5 years	> 5 years
- Currency option contracts - US dollar	35	35	-	-
- Currency option contracts - Other currencies	19	19	-	-
- Forward contracts - US dollar	207	104	103	-
- Forward contract - Swiss franc	104	60	44	-
- Forward contract - Swedish kroner	72	20	52	-
- Forward contract - Other currencies	97	68	27	2
- Insurance contracts	139	47	92	-
Total	**673**	**353**	**318**	**2**

(b) Interest rate risk

The Group does not have a dynamic interest rate risk management policy. However, it may enter into transactions in order to hedge its interest rate risk on a case-by-case basis according to market opportunities, under the supervision of the Executive Committee.

Sensitivity to interest rates

(in € million)	At 31 March 2006	< 1 year	1-5 years	> 5years
Financial assets at floating rate	2 082	1 328	700	54
Financial assets at fixed rate	68	40	28	-
Financial assets not bearing interests	36	21	8	7
Financial assets	**2 186**	**1 389**	**736**	**61**
Financial debt at floating rate	(1 034)	(22)	(1 012)	-
Financial debt at fixed rate	(1 537)	(338)	(1 071)	(128)
Financial debt	**(2 571)**	**(360)**	**(2 083)**	**(128)**
Net position at floating rate before swaps (*)	1 048	1 306	(312)	54
Net position at fixed rate before swaps (*)	(1 469)	(298)	(1 043)	(128)
Net position not bearing interests	36	21	8	7
Net position before hedging	**(385)**	**1 029**	**(1 347)**	**(67)**
Net position at floating rate after swaps (*)	848	1 306	(512)	54
Net position at fixed rate after swaps (*)	(1 269)	(298)	(843)	(128)
Net position not bearing interests	36	21	8	7
Net position after hedging	**(385)**	**1 029**	**(1 347)**	**(67)**

(*) At 31 March 2006, the Group holds swaps from fixed rate to floating rate with a nominal value of €200 million and a fair value of €(1) million.
At 31 March 2005, the Group held a swap from fixed rate to floating rate with a nominal value of €94 million and a fair value of €3 million.

The net short-term loan position at floating rate after swaps amounts to €1,306 million.

A 1% increase in market rates would have decreased the net interest expense by €10 million, representing 8.2% of the net interest expense for the year ended 31 March 2006.

A 1% increase in market rates would have decreased the net interest expense after swaps by €8 million, representing 6.6% of the net interest expense for the year ended 31 March 2006.

(c) Credit risk

- Risk related to customers

The Group hedges up to 90% of the credit risk on certain contracts using export credit insurance contracts. The Group believes the risk of counterparty failure to perform as contracted, which could have a significant impact on the Group's financial statements or results of operations, is limited due to the Group seeking to ensure that customers generally have strong credit profiles or adequate financing to meet their project obligations.

- Risk related to cash and cash equivalents

As part of the central treasury management, 71% of cash and cash equivalents at 31 March 2006 is invested with a bank counterpart of first rank noted "Investment Grade".

(d) Liquidity risk

The analysis by maturity and interest rate of the Group's debt is set out in Note 22 (c). Details of short-term liquidity are set out below.

The Group available liquidity within one year at 31 March 2006 and 31 March 2005 is as follows:

(in € million)	**At 31 March 2006**	**At 31 March 2005 (*)**
Available credit line	700	1 202
Cash available at parent Company	950	796
Cash equivalents at subsidiary level (1)	351	608
Available liquidity	**2 001**	**2 606**
Financial debt to be reimbursed within one year (2)	(360)	(444)
Available credit line to be reimbursed within one year	-	(27)
Available liquidity for the coming year	**1 641**	**2 135**

(*) Restated in accordance with IFRS, with the exception of IAS 32, IAS 39 and IFRS 5 applied from 1 April 2005

(1) At 31 March 2006, this amount includes €229 million of cash and cash equivalents held in countries subject to legal or statutory restrictions. Such restrictions can limit the use of such cash and cash equivalents by the parent company and the other group's subsidiaries.
(2) See Note 22 (a)

Note 29 – Employee benefit expense and number of employees

Year ended 31 March *(in € million except number of employees)*	2006	2005
Total wages and salaries	2 668	2 723
Of which executive officers	*8*	*6*
Social charges	642	744
Pension benefit expense (see Note 21)	251	234
Share-based payments expense (see Note 30)	54	3
Total employee benefit expense	**3 615**	**3 704**
Staff of consolidated companies		
Managers, Engineers and professionals	22 548	23 691
Other employees	42 690	45 903
Approximate number of employees	**65 238**	**69 594**

The information above includes the Marine sector.

Note 30 – Share-based payments

(a) Detail of stock option plans

	Plan n°3	Plan n°5	Plan n°6	Plan n°7	Plan n°8
Date of shareholders meeting	24 July 2001	24 July 2001	24 July 2001	9 July 2004	9 July 2004
Grant date	24 July 2001	8 January 2002	7 January 2003	17 September 2004	27 September 2005
Exercise price (1)	€1,320	€523.60	€240	€17.20	€35.75
Adjusted exercice price (2)	€819.20	€325.20	€154.40	-	-
Beginning of exercise period	24 July 2002	8 January 2003	7 January 2004	17 September 2007	27 September 2008
Expiration date	23 July 2009	7 January 2010	6 January 2011	16 September 2014	26 September 2015
Number of beneficiaries	1 703	1 653	5	1 007	1 030
Number of options initially granted	105 000	105 000	30 500	2 783 000	1 401 500
Number of options exercised since the origin	-	-	-	-	-
Number of options cancelled	45 394	42 955	-	68 000	38 000
Adjusted number of remaining options at 31 March 2006 (2)	119 400	124 554	47 489	2 715 000	1 363 500
Number of shares that may be subscribed by the actual members of the executive committee	3 105	4 229	46 709	610 000	312 500

(1) Subscription price, restated following the consolidation of shares, corresponding to the average opening price of the shares during the twenty trading days preceding the day on which the options were granted by the Board (no discount or surcharge) or the nominal value of the share when the average share price is lower.
(2) Plans n°3, 5 and 6 have been adjusted in compliance with French law as a result of the completion of the operations which impacted the share capital in 2002, 2003 and August 2004.

Stock option plans 3 to 6, granted between 2001 and 2003, gradually vest by one third a year during the first three years following the grant.
Stock option plans 7 and 8, granted between 2004 and 2005, become vested after a period of three years.
The exercise period then covers seven years for each plan.

Plan 7 is also subject to the following conditions of exercise: 50% of options granted to each beneficiary are subject to exercise conditions relating to the Group's free cash flow and operating margin for fiscal year 2006. The conditional options are exercised entirely only if, at the closing of fiscal year ended 31 March 2006, the Group's free cash flow is positive and the Group's operating margin is superior or equal to 5% (percentage applicable to free cash flow and operating margin under IFRS standards). Below these thresholds the options would be partially exercisable. They would be forfeited if the free cash flow is negative at more than €500 million or if the operating margin is below 5%. At 31 March 2006, these exercise conditions have been fulfilled.

(b) Detail of stock appreciation rights ("SARs") plans

	SARs n°7	**SARs n°8**	**Notional SARs**
Grant date	1 December 2004	18 November 2005	16 December 2005
Exercise price (1)	€17.20	€44.90	€35.75
Vesting date	17 September 2007	27 September 2008	27 september 2008
Expiration date	1 April 2010	18 November 2015	1 April 2011
Number of beneficiaries	114	120	120
Number of SARs initially granted	233 000	116 000	116 000
Additional grants	6 000	-	-
Number of SARs exercised since the origin	2000	-	-
Number of SARs cancelled	28 000	2 500	2 500
Number of remaining SARs at 31 March 2006	209 000	113 500	113 500
Terms and conditions of exercise	Exercise period: - 1 April 2008 - 1 April 2009 - 1 April 2010	SARs exercisable as from 27 September 2008	- 1/3 of SARs settled automatically as from 1 April 2009 - 1/3 of SARs settled automatically as from 1 April 2010 - 1/3 of SARs settled automatically as from 1 April 2011

(1) Subscription price, restated following the consolidation of shares, corresponding to the average opening price of the shares during the twenty trading days preceding the day on which the options were granted by the board (no discount or surcharge) or the nominal value of the share when the average share price is lower.

SARs plan 7 will be settled partially or fully to the extent vested as selected by the beneficiary on any of the following exercise dates: 1 April 2008, 1 April 2009 and 1 April 2010. In the absence of an effective election, on each of the exercise date, one third, one half and all of the outstanding beneficiary's vested SARs will be settled on each date respectively.
One third of the participant's vested Notional SARs plan will be automatically settled on 1 April 2009, 1 April 2010 and 1 April 2011.

(c) Movements in stock option plans and stock appreciation rights plans

- Stock option plans:

	Number of options	Weighted average exercise price per share
Outstanding at 1 April 2004	**321 389**	**506.00**
Granted	2 783 000	17.20
Exercised	-	-
Cancelled	(59 040)	286.80
Outstanding at 31 March 2005	**3 045 349**	**63.60**
Granted	1 401 500	35.75
Exercised	-	-
Cancelled	(76 906)	32.78
Outstanding at 31 March 2006	**4 369 943**	**55.17**

- SARs plans:

	Number of SARs	Weighted average exercise price per share
Outstanding at 1 April 2004	**-**	**-**
Granted	239 000	17.20
Exercised	-	-
Cancelled	(5 000)	17.20
Outstanding at 31 March 2005	**234 000**	**17.20**
Granted	232 000	35.75
Exercised	(2 000)	17.20
Cancelled	(28 000)	21.15
Outstanding at 31 March 2006	**436 000**	**29.24**

(d) 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 6, 7 and 8 only.

Employees' expenses recorded in that respect amount to €10 million for the year ended 31 March 2006 (€3 million for the year ended 31 March 2005).

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 more relevant given the significant volatility of the Group's share price over the last few years.

	Plan n°6	Plan n°7	Plan n°8
Grant date	7 January 2003	17 September 2004	27 September 2005
End of vesting period	7 January 2006	17 September 2007	27 September 2008
Expected life of options	4 years	4 years	4 years
Exercise price (€)	154.40	17.20	35.75
Share price at grant date (€)	150.97	17.60	36.80
Volatility	51%	51%	34%
Risk free interest rate	3.2%	3.0%	2.5%
Average dividend yield (%)	0%	0.67%	1.33%
Weighted average fair value (€)	63.76	7.32	10.33
Expense for the year ended 31 March 2006 (in €m)	1	7	2

(e) 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 €5 million for the year ended 31 March 2006 (€0.3 million for the year ended 31 March 2005). At 31 March 2006, liabilities related to these three SARs plans are recorded in the balance sheet for an amount of €5 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 31 March 2006 (€)	69.20	69.20	69.20
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 year ended 31 March 2006 (in €m)	5	-	-

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

(f) Free shares

On 17 November 2005, the Group announced the attribution of twelve free shares to all employees, or the equivalent in cash (SARs) depending on the conditions in each country. This attribution was subject to two conditions: a Group's operating margin of at least 5% and a positive free cash flow. These conditions have been fulfilled at 31 March 2006 and this attribution confirmed by the Board of Directors.

For the year ended 31 March 2006, an expense of €40 million has therefore been recorded on the following basis:

Grant date		17 November 2005
Share price at grant date (€)		44.92
Share price at 31 March 2006 (€)		69.20
Number of free shares to be granted		600 000
Number of free SARs to be granted		120 000
Expense for the year ended 31 March 2006 (in €m):		40
of which	*Free shares*	*27*
	Free SARs	*8*
	Social charges on free shares	*4*
	Social charges on free SARs	*1*

At 31 March 2006, the portion to be settled in shares of €27 million has been recorded through equity. The remaining portion to be settled in cash and the social charges for the whole attribution of €13 million have been recorded in liabilities in the balance sheet.

Note 31 – Related parties

The consideration and related benefits of the CEO and Chairman of the Board of Directors amounts to €2.2 million for the year ended 31 March 2006 (€1.6 million for the year ended 31 March 2005). The consideration and related benefits comprise a fixed and a variable portion, employer social security levies and charges related to retirement compensation and the complementary pension scheme.

Directors' fees amount to €342,500 for the year ended 31 March 2006 (€326,250 for the year ended 31 March 2005) of which €0 for the CEO and Chairman of the Board of Directors for the year ended 31 March 2006 (€52,500 for the year ended 31 March 2005).

Note 32 – Subsequent events

On 26 April 2006, ALSTOM and Bouygues signed a memorandum of understanding for operational and commercial cooperation which is to accompany the purchase by Bouygues of the 21.03% stake of the French State in ALSTOM. The purchase of shares by Bouygues, which is subject to merger control clearance by the European Commission and the closing of the ALSTOM Marine disposal, is expected to occur within a short period.

Bouygues also intends to take a 50% equity share in ALSTOM's hydro power equipment business; the corresponding terms are under discussion. This operation would allow ALSTOM to fulfil the commitment made to the European Commission to set up a joint venture in this sector.

Note 33 – 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 €50 million at 31 March 2006.

Companies	Country	Ownership %	Consolidation Method
ALSTOM SA	France		Parent company
ALSTOM (Switzerland) Ltd	Switzerland	100.0	Full consolidation
ALSTOM Espana IB SL (holding)	Spain	100.0	Full consolidation
ALSTOM Gmbh (holding)	Germany	100.0	Full consolidation
ALSTOM Hydro Holding (4)	France	100.0	Full consolidation
ALSTOM Holdings	France	100.0	Full consolidation
ALSTOM Inc (holding)	United-States	100.0	Full consolidation
ALSTOM Mexico SA de CV (holding)	Mexico	100.0	Full consolidation
ALSTOM NV (holding)	Netherlands	100.0	Full consolidation
ALSTOM Power Holdings SA	France	100.0	Full consolidation
ALSTOM Transport Holding (4)	France	100.0	Full consolidation
ALSTOM UK Holding Ltd	United Kingdom	100.0	Full consolidation
ALSTOM Australia Ltd	Australia	100.0	Full consolidation
ALSTOM Belgium SA	Belgium	100.0	Full consolidation
ALSTOM Brasil Ltda	Brazil	100.0	Full consolidation
ALSTOM Canada Inc	Canada	100.0	Full consolidation
ALSTOM Controls Ltd	United Kingdom	100.0	Full consolidation
ALSTOM Ferroviaria Spa (2)	Italy	100.0	Full consolidation
ALSTOM K.K.	Japan	100.0	Full consolidation
ALSTOM LHB GmbH	Germany	100.0	Full consolidation
ALSTOM Ltd (1)	India	100.0	Full consolidation
ALSTOM Ltd	United Kingdom	100.0	Full consolidation
ALSTOM NL Service Provision Ltd	United Kingdom	100.0	Full consolidation
ALSTOM Power Asia Pacific Sdn Bhd	Malaysia	100.0	Full consolidation
ALSTOM Power Boiler GmbH	Germany	100.0	Full consolidation
ALSTOM Power Centrales	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	France	100.0	Full consolidation
ALSTOM Power Generation AG	Germany	100.0	Full consolidation
ALSTOM Power Hydraulique	France	100.0	Full consolidation
ALSTOM Power Hydro	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 Norway AS	Norway	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	France	100.0	Full consolidation
ALSTOM Power Sp Zoo	Poland	100.0	Full consolidation
ALSTOM Power Sweden AB	Sweden	100.0	Full consolidation
ALSTOM Power (Thailand) Ltd	Thailand	100.0	Full consolidation
ALSTOM Power Turbomachines	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 BV	Netherlands	100.0	Full consolidation
ALSTOM Transport SA	France	100.0	Full consolidation
ALSTOM Transport Systems SpA (2)	Italy	100.0	Full consolidation
ALSTOM Transportation Inc	United States	100.0	Full consolidation
ALSTOM Transporte	Spain	100.0	Full consolidation

APC Power Conversion GmbH (3)	Germany	100.0	Full consolidation
APC Power Conversion SAS (3)	France	100.0	Full consolidation
Chantiers de l'Atlantique	France	100.0	Full consolidation
Eukorail	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) Sold during the year
(2) ALSTOM Transport Systems SpA merged into ALSTOM Ferrovaria SpA at 31 March 2006
(3) Created and sold during the year
(4) Created during the year

Companies included in the list of major companies at 31 March 2005 for which sales are below €50 million at 31 March 2006:

ALSTOM Leroux Naval	France	100.0	Full consolidation
ALSTOM Power Boilers	France	100.0	Full consolidation
ALSTOM Power FlowSystems A/S	Denmark	100.0	Full consolidation
ALSTOM Power Conversion SA	France	100.0	Full consolidation
ALSTOM Power Conversion Inc	United-States	100.0	Full consolidation

Companies included in the list of major companies at 31 March 2006 for which sales were below €50 million at 31 March 2005:

ALSTOM Signalling Inc.	United States	100.0	Full consolidation
ALSTOM Power (Thailand) Ltd	Thailand	100.0	Full consolidation
ALSTOM Power Environment	France	100.0	Full consolidation
ALSTOM Transport Systems SpA	Italy	100.0	Full consolidation
Eukorail	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
ALSTOM Power Turbomachines	France	100.0	Full consolidation

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

Note 34 – French GAAP / IFRS reconciliation

This note describes the principles applied to prepare the IFRS opening balance sheet as at 1 April 2004, the transition date, as well as the differences compared with French generally accepted principles ("French GAAP") applied in prior years and their impact on the 2004/05 opening and closing balance sheets and income statement.

a) Background

Following the coming into force of European Reporting Regulation n°1606/2002 as of 19 July 2002, consolidated financial statements of the Group for the year ended 31 March 2006 are prepared in accordance with International Financial Reporting Standards (IAS/IFRS) as approved by the European Union. These first published financial statements under IAS/IFRS standards are presented with comparative information related to the previous period converted to the same standards, except the IAS 32, IAS 39 and IFRS 5 standards which are applied from 1 April 2005.

Therefore, the preparation of the 2005/06 IFRS consolidated financial statements includes the restatement from French GAAP to IFRS of:

- the balance sheet at the transition date (1 April 2004);
- the balance sheet as at 31 March 2005, the income statement, the cash flow statement and the changes in equity for the year ended 31 March 2005.

The 2004/05 financial information on the financial impact of the transition to IFRS has been prepared by applying to 2004/05 French GAAP financial data the IAS/IFRS standards and interpretations applicable for the preparation of its comparative consolidated financial statements as at 31 March 2006. The basis of this preparation results from:

- IAS/IFRS standards and interpretations applicable for annual periods beginning on or prior to 1 April 2005;
- The options and exemptions that the Group has applied for the preparation of the 2005/06 consolidated financial statements.

This information has been reviewed by the Board of Directors and the Audit Committee.

b) Options taken at first-time adoption of IFRS at 1 April 2004 (transition date)

The 2004/05 consolidated financial statements have been restated in accordance with IFRS 1 – First-time Adoption of International Financial Reporting Standards, based on the IAS/IFRS applicable for annual periods beginning on or prior to 1 April 2005.

To prepare the opening IFRS balance sheet at 1 April 2004 and the restated consolidated financial statements for the year ended 31 March 2005, the Group has applied the following options/exemptions as authorised by IFRS 1:

Employee benefits
The Group has elected to adopt the complete retrospective application of IAS 19.
The complete retrospective application has been made possible, due to the short existence of certain present pension plans:

- plans recently carved out from multi-employer schemes (mainly in the United Kingdom)
- plans included in recent business combinations (mainly, acquisition of ABB Alstom Power in 1999 and 2000).

With the support of its actuaries, the Group has restated to IFRS the obligations and the related assets of all significant plans and split the cumulative actuarial gains and losses from the inception of the plans until 1 April 2004 into a recognised portion and an unrecognised portion.
The Group has elected to maintain the "corridor" method already adopted under French GAAP which leaves a portion of actuarial gains or losses unrecognised: the "corridor" method is therefore used for the restatement of pension assets and accrued pension liabilities at the date of transition to IFRS (1 April 2004), as well as for their subsequent re-measurements at 31 March 2005.

Business combinations
The Group has elected not to apply IFRS 3 retrospectively to past Business combinations prior to 1 April 2004.

Financial instruments
The Group has elected not to restate comparative information for IAS 32-39 standards. Comparative information does not comply with these standards in the first year of transition 2004-2005.

Fair value or revaluation at deemed cost of property, plant and equipment net and other intangible assets net
The Group has decided not to apply the exemption provided for in IFRS 1, allowing fair value of property, plant and equipment and other intangible assets to be used as their deemed cost in the IFRS opening balance sheet at 1 April 2004. Therefore, the option chosen by the Group has no impact on equity in the IFRS opening balance sheet at 1 April 2004.

Cumulative translation differences
The cumulative translation differences at 1 April 2004 have been set to zero through the consolidated reserves, leaving the shareholders' equity unchanged. The gain or loss on a subsequent disposal of any foreign operation will therefore exclude translation differences that arose before 1 April 2004 and include later translation differences.

Share-based payments
The Group has elected to apply IFRS 2 standard from 1 April 2004 for all plans granted after 7 November 2002 and not fully vested at 1 January 2005.

The IAS 32 and IAS 39 standards relating to financial instruments as well as the IFRS 5 standard relating to assets held for sale and discontinued operations have been applied from 1 April 2005.

c) *Description of the IFRS restatements and reclassifications*

The reconciliation of movements in equity between French GAAP and IFRS for the year ended 31 March 2005 is as follows:

(in € million)	**At 1 April 2004**	Net profit year ended 31 March 2005	Conversion of ORA/TSDDRA - Increase/Decrease in capital	Dividends paid & others	Cumulative Translation Adjustments	**At 31 March 2005**
Shareholders' equity	*29*	*(865)*	*2 044*	*-*	*(26)*	*1 182*
Minority interests	***68***	*1*	*-*	*8*	*(3)*	***74***
Equity French GAAP	**97**	**(864)**	**2 044**	**8**	**(29)**	**1 256**
Employee benefits	**28**	1				**29**
Capitalisation of development costs	**151**	13				**164**
Deferred tax liabilities on intangible assets	**(188)**	12				**(176)**
Amortisation of goodwill	**-**	223				**223**
Finance leases and other	**(20)**	(12)			2	**(30)**
Total IFRS restatements, net of tax effects	***(29)***	***237***	***-***	***-***	***2***	***210***
Equity IFRS	**68**	**(627)**	**2 044**	**8**	**(27)**	**1 466**
Shareholders' equity	***2***	*(628)*	*2 044*	*4*	*(24)*	***1 398***
Minority interests	***66***	*1*	*-*	*4*	*(3)*	***68***

A reconciliation between French GAAP and IFRS is presented at the end of the document on the following statements:
- Balance sheets as at 1 April 2004 and 31 March 2005
- Income statement for the year ended 31 March 2005;
- Cash flow statement for the year ended 31 March 2005.

1. IFRS restatements

Leases - IAS 17

Under French GAAP, in accordance with an option given by the Accounting Principles and Règlement 99-02 of the Comité de Réglementation Comptable, the Group had elected not to capitalise finance lease arrangements and a long-term rental.

Under IAS 17, finance leases, ie that transfer substantially all risks and rewards incidental to ownership of an asset, have to be recognised as assets and liabilities in the balance sheet.

The finance leases of the Group have been capitalised in the balance sheet as follows:

- in property, plant and equipment, net for the finance leases,
- in other non current assets, net for the long term rental.

1. Finance leases

The capitalisation of finance leases has the following effects on the consolidated balance sheets:

(in € million)	**At 1 April 2004**	**At 31 March 2005**
Land	2	2
Buildings	267	266
Machinery and Equipment	85	72
Tools, furniture, fixtures and others	65	85
Gross value	***419***	***425***
Land		
Buildings	(52)	(67)
Machinery and Equipment	(31)	(36)
Tools, furniture, fixtures and others	(40)	(61)
Accumulated depreciation	***(123)***	***(164)***
Land	2	2
Buildings	215	199
Machinery and Equipment	54	36
Tools, furniture, fixtures and others	25	24
Net value	**296**	**261**
Non-current financial debt	(257)	(230)
Current financial debt	(45)	(38)
Obligation under Finance leases	**(302)**	**(268)**
Net Deferred tax	**3**	**3**
Impact on Equity	**(3)**	**(4)**

The financial component of rents related to finance leases, previously included in cost of sales (€6 million as at 31 March 2005) and in administrative expenses (€6 million as at 31 March 2005) under French GAAP, has been transferred to financial expenses under IFRS.

The portion of rents remaining in cost of sales and administrative expenses under IFRS corresponds to the depreciation of the leased assets.

2. Long-term rental

Pursuant to a contract signed in 1995 with a major European metro operator, the Group has sold 103 trains and associated equipment to two leasing entities. These entities have entered into an agreement by which the Group leases back the trains and associated equipment from the lessors for a period of 30 years. The trains are made available for use by the metro operator for an initial period of 20 years, extendible at the option of the operator for a further ten year period. The trains are being maintained and serviced by the Group.

The capitalisation of long-term rental has the following effects on the consolidated balance sheets:

(in € million)	**At 1 April 2004**	**At 31 March 2005**
Other non current assets	**683**	**650**
Non-current financial debt	(672)	(637)
Current financial debt	(11)	(13)
Obligation under Finance leases	**(683)**	**(650)**
Impact on Equity	**-**	**-**

Development costs – IAS 38

Under French GAAP, the Group had elected to expense research and development costs as incurred.

Under IFRS, in accordance with IAS 38 standard, development costs meeting the following criteria are capitalised:

- 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.

Capitalised development costs are amortised on a straight-line basis over the estimated useful life of the development asset.

In the IFRS opening balance sheet as at 1 April 2004, €315 million development costs net have been capitalised (€368 million of cumulated development costs less €53 million of cumulative amortisation). As part of these costs (€108 million) were previously recorded in work in progress, the impact on the opening equity amounts to €151 million after a deferred tax effect of €53 million attached to the capitalisation.

In the year ended 31 March 2005, the capitalisation of development costs has a negative impact of €3 million on the income from operations and a positive impact of €13 million on the net income. The €16 million tax credit includes the reduction by €28 million of the deferred tax valuation allowance recorded under French GAAP as a result of the recognition for the same amount of a deferred tax liability on development costs capitalised.

In the balance sheet as at 31 March 2005, €301 million development costs net have been capitalised (€436 million of cumulated development costs less €135 million of cumulative amortisation and depreciation). As part of these costs (€97 million) were previously recorded in work in progress, the impact on the equity as at 31 March 2005 amounts to €164 million after a deferred tax effect of €37 million attached to the capitalisation.

Employee benefits - IAS 19

According to IFRS 1, which governs the preparation of the balance sheet at the transition date, two alternative treatments of unrecognised actuarial gains or losses could be considered:
- immediate recognition in the balance sheet of all actuarial gains or losses related to pension benefits existing at the date of transition, measured according to IAS 19 (Employees Benefits) or,
- complete retrospective application of IAS 19 since inception of all plans with cumulative amortisation of actuarial gains and losses, as if the standard had been applied in the previous years.

The Group has elected to adopt the complete retrospective application of IAS 19.

A limited number of discrepancies have been identified between IAS 19 and the valuation method used by the group under French GAAP and the impact of the restatement of pension assets and accrued liabilities is marginal.
The main differences relate to the following items:
- Measurement date:

The measurement date for liabilities and dedicated plan assets is required at year-end date by IAS 19 while it was performed three months before year-end date under French GAAP.
- Asset ceiling:

In case of overfunding, IAS 19 prescribes a limitation to pension assets to be recognised. Such limitation did not exist under French GAAP.
- Plan amendments and curtailments due to restructuring events:

The treatment of impacts (immediate recognition or deferral) differs between IAS 19 and French GAAP.

The impact on the equity position is the following:

(in € million)	**At 1 April 2004**		
	French GAAP	**Restatement**	**IFRS**
Pension assets	357	32	389
Accrued pensions and retirement benefits	(842)	(2)	(844)
Net Pension liability	**(485)**	**30**	**(455)**
Other payables	(18)	9	(9)
Net Deferred tax		(11)	
Impact on Equity		**28**	

(in € million)	**At 31 March 2005**		
	French GAAP	**Restatement**	**IFRS**
Pension assets	353	21	374
Accrued pensions and retirement benefits	(826)	2	(824)
Net Pension liability	**(473)**	**23**	**(450)**
Other payables	(9)	9	
Net Deferred tax		(3)	
Impact on Equity		**29**	

The net periodic cost under IFRS compared with the net periodic cost under French GAAP for the year ended 31 March 2005 is the following:

(in € million)	**FRENCH GAAP**	**Variation**	**IFRS**
Service cost	(82)	2	(80)
Interest cost	(218)	1	(217)
Expected return on plan assets	198	2	200
Amortisation of unrecognised past service cost	-	5	5
Amortisation of actuarial net loss (gain)	(55)	(2)	(57)
Curtailments/Settlements	3	1	4
Net benefit expense	**(154)**	**9**	**(145)**
Multi-employer contributions	(21)	-	(21)
Total benefit expense	**(175)**	**9**	**(166)**

As a result, the total benefit expense under IFRS is broken down as follows in the consolidated income statement for the year ended 31 March 2005:

(in € million)	
Service cost	(80)
Multi-employer contributions	(21)
Income from operations	**(101)**
Amortisation of actuarial net (loss) gain	(57)
Amortisation of unrecognised past service cost	5
Curtailments/Settlements	4
Other income (expense)	**(48)**
Interest cost	(217)
Expected return on plan assets	200
Financial income (expense)	**(17)**
Total benefit expense	**(166)**

The impact on the income statement for the year ended 31 March 2005 is composed of the following:

- A remeasurement of the benefit expense according to the IAS 19 standard resulting in a positive impact of €2 million in the income from operations, a negative impact of €5 million on the pre-tax income.
- A reclassification of a portion of the benefit expense: under French GAAP, the total amount of the benefit expense was classified below operating income as other expense. Under IFRS, the service cost 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 remain recognised in other income (expenses). The financial elements of the benefit expense such as interest cost and asset returns are included in financial income (expenses).

At 31 March 2005, the full pension disclosure under IFRS is as follows:

CHANGE IN BENEFIT OBLIGATIONS

(in € million)	
Benefit Obligations at Beginning of year	**(4 137)**
Service cost	(80)
Plan participants contributions	(29)
Interest cost	(217)
Plan amendments	(5)
Business Combinations/disposals	(17)
Curtailments	17
Settlements	102
Actuarial loss	(274)
Benefits paid	283
Foreign currency translation	101
Benefit Obligations at end of year	**(4 256)**

CHANGE IN PLAN ASSETS

(in € million)	
Fair value of plan assets at beginning of year	**2 800**
Actual return on plan assets	286
Company contributions	99
Plan participant contributions	28
Business Combinations/disposals	19
Settlements	(115)
Benefits paid	(210)
Foreign currency translation	(80)
Fair value of plan assets at end of year	**2 827**

FUNDED STATUS OF THE PLAN	**(1 429)**
Unrecognised actuarial loss (gain)	1 009
Unrecognised past service cost	(30)
(Accrued) prepaid benefit cost	**(450)**

Of which :	
Accrued pensions and retirement benefits	**(824)**
Pension assets	**374**

Amortisation of goodwill – IFRS 3

Under French GAAP, the Group amortised goodwill on the straight-line basis over a period of twenty years in all sectors. An impairment test is performed annually.

In accordance with IFRS 3 standard, goodwill is no longer amortised. Cash-generating units to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired.

The impact of the cessation of the goodwill amortisation on the 2004/05 income statement and on the equity as at 31 March 2005 is positive by €223 million.

Income taxes - IAS 12

Changes in deferred taxes assets and liabilities result from both IAS 12 implementation and tax effects triggered by other IFRS restatements.

(1) Under French GAAP, deferred tax liabilities were not raised on intangible assets which were recognised when accounting for a business combination and which were not able to be sold separately from the acquired entity. According to the IAS 12 standard, deferred tax liabilities are recognised on all intangible assets acquired in business combination. Therefore, a deferred tax liability has been recognised on the other intangible assets resulting from the allocation of the purchase price following the acquisition of ABB ALSTOM POWER, leading to an increase in the deferred tax liabilities of €176 million at 31 March 2005 (€188 million at 1 April 2004).

(2) The other tax effects mainly result from the following IFRS restatements:

a) In accordance with IAS 38 "Intangible assets", capitalisation of development costs led to the recognition of a net deferred tax liability of €37 million at 31 March 2005 (€53 million at 1 April 2004). In the year ended 31 March 2005, the deferred tax liability recognised on the capitalised development costs in France (€28 million) triggered a reduction of the same amount of the valuation allowance that was recorded under French GAAP.

b) In accordance with IAS 19 "employee benefits", the restatement of the pension schemes following the application of the retrospective method led to the recognition of a net deferred tax liability of €3 million at 31 March 2005 (€11 million at 1 April 2004).

(in € million)	**At 1 April 2004**	**Var.**	**At 31 March 2005**
Net deferred tax asset under French GAAP	**1 531**	**(182)**	**1 349**
Deferred tax on intangible assets	(188)	12	(176)
Capitalisation of development costs	(53)	16	(37)
Employee benefits	(11)	8	(3)
Other	10	5	15
Net deferred tax asset under IFRS	**1 289**	**(141)**	**1 148**

Under French GAAP, the Group was satisfied as to the recoverability of the deferred tax assets, net at 31 March 2005 and 1 April 2004. Under IFRS, the assessment remains unchanged.

As under French GAAP, IAS 12 revised permits to offset deferred tax assets and liabilities if the entity has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority. Following the change in gross deferred tax assets and deferred tax liabilities, the tax netting was recalculated leading to the recognition of an additional netting of €228 million at 31 March 2005 (€232 million at 1 April 2004).

In accordance with IAS 1 "Presentation of financial statements", all deferred tax assets and liabilities are reflected as non-current assets and non-current liabilities in the consolidated financial statement and are presented separately on the face of the balance sheet.

Other IFRS restatements

The other restatements mainly relate to the following:

- Under French GAAP, start-up costs of certain activities and costs related to bonding programmes were recognised in fixed assets and deferred charges respectively, and amortised. Under IFRS, these costs are expensed as incurred as they do not satisfy the definition and recognition criteria requested to be maintained in assets. Consequently, €24 million costs less €7 million related deferred taxes have been written off against the opening equity at 1 April 2004. In the balance sheet as at 31 March 2005, €38 million costs less €12 million related net deferred taxes have been written off against equity. The impact on the 2004/05 income statement is a decrease of €10 million on the net income.

- Under French GAAP, no charge is recorded with respect to stock options. In accordance with IFRS 2 standard, stock option compensation should be accounted for. As the Group has elected not to adopt the full retrospective application option, IFRS 2 is only applicable to stock option plans granted after 7 November 2002 and not fully vested at 1 January 2005, ie plan 6 and plan 7 as well as any future plans. The impact on the 2004/05 income statement is a charge of €2 million in the income from operations.

2. IFRS reclassifications

IAS 11 – Construction contracts / IAS 18 – Revenue recognition

Under IFRS, penalties are deducted from contract sales whereas they were recorded in cost of sales under French GAAP. This difference results in a €135 million reclassification in the income statement as at 31 March 2005 reducing sales and cost of sales by the same amount with no effect on either the opening equity as at 1 April 2004 or the income from operations in the year ended 31 March 2005.

In accordance with IAS 11, 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 under "Construction contracts in progress, assets". If the amount is negative, it is included as a liability under "Construction contracts in progress, liabilities". Down-payments received represent the amounts received from customers before work starts. Any subsequent payment requested from customers is recorded as progress billings. When a contract is completed, residual obligations are recorded in current provisions or in payables depending on the certainty of the timing and the amount. The application of this standard results in several reclassifications within current assets and liabilities as well as provisions with no impact on the net working capital.

Other reclassifications

The other reclassifications on the face of the balance sheet mainly relate to the following:

- In accordance with IAS 1 "Presentation of financial statements", current and non-current assets and liabilities are presented separately. The application of this standard has therefore resulted in a breakdown of the provisions and financial debt between current and non-current. Provisions on contracts are considered as current whereas other provisions including restructuring provisions are considered as non-current. Financial debt with a maturity of less than one year is considered as current when the financial debt with a maturity over one year is considered as non current.

- In accordance with IAS 7 "Cash flow statements", bank overdrafts which are repayable on demand form an integral part of the cash management and are therefore included as a component of cash and cash equivalent. Bank overdrafts have been reclassified from financial debt to cash and cash equivalents, resulting in a reduction of these two captions in the balance sheet at 1 April 2004 and 31 March 2005 by €78 million and €58 million, respectively. These reclassifications have no impact on the net financial debt.

The other reclassifications on the face of income statement mainly relate to the following:

- In accordance with IAS 38 “Intangible assets”, the amortisation expense of other intangible assets which was presented below operating income under French GAAP, has been reclassified in the income from operations for an amount of €59 million for the year ended 31 March 2005.
- In addition, certain costs relating to exiting and reorganising activities (€23 million) as well as employee profit sharing (€8 million) which were classified below income from operations under French GAAP have been reclassified within cost of sales under IFRS.

3. Changes in key indicators

- Reconciliation Operating income / Income from Operations for the year ended 31 March 2005

Under French GAAP, operating income (loss) included gross margin, administrative and selling expenses and research and development expenses. It was measured before restructuring costs, goodwill and amortisation of intangible assets, and other items including foreign exchange gains and losses, gains and losses on sale of assets, pension costs and employee profit sharing and before taxes, interest income and expenses.

Under IFRS, 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 transactions, employee profit sharing, fair value changes of derivative instruments associated with operating transactions (from 1 April 2005) and capital gains (losses) on disposal of intangible and tangible assets arising from ordinary activities.

For the year ended 31 March 2005, the reconciliation of the operating income under French GAAP with the Income from Operations under IFRS is as follows:

(in € million)	**Year ended 31 March 2005**
Operating income French GAAP	**550**
- Pension service cost and multi-employer contributions	(103)
- Amortisation of intangible assets	(59)
- Employee profit sharing	(8)
- Other	(23)
IFRS reclassifications	***(193)***
Operating income after IFRS reclassifications	**357**
- Pension costs	2
- Finance leases	12
- Capitalisation of development costs	(3)
- Share-based payments and other	(1)
IFRS restatements	***10***
Income from Operations	**367**

- Reconciliation sales and income from operations by sector for the year ended 31 March 2005

(in € million)	Power Turbo-Systems / Power Environment	Power Service	Transport	Marine	Power Conversion	Corporate & Other	Year ended 31 March 2005
Sales French GAAP	**4 256**	**2 844**	**5 134**	**630**	**539**	**259**	**13 662**
Sales IFRS	**4 190**	**2 832**	**5 100**	**607**	**536**	**262**	**13 527**
Operating income (French GAAP)	**(35)**	**473**	**260**	**(103)**	**36**	**(81)**	**550**
- Employee benefits	(32)	(41)	(20)	(1)	(5)	(2)	(101)
- Amortisation of intangible assets	(35)	(24)					(59)
- Capitalisation of development costs	21		(24)				(3)
- Finance leases	1	5	4		1	1	12
- Employee profit sharing	(5)	(1)	(2)				(8)
- Other	(22)			1	(2)	(1)	(24)
IFRS impacts	***(72)***	***(61)***	***(42)***	***-***	***(6)***	***(2)***	***(183)***
Income from Operations (IFRS)	**(107)**	**412**	**218**	**(103)**	**30**	**(83)**	**367**

APPENDICES TO THE FRENCH GAAP / IFRS RECONCILIATION

- Consolidated balance sheet as at 1 April 2004
- Consolidated income statement for year ended 31 March 2005
- Consolidated balance sheet as at 31 March 2005
- Consolidated cash flow statement for the year ended 31 March 2005

CONSOLIDATED BALANCE SHEET AT 1 APRIL 2004

(in € million)	**At 1 April 2004 (*) French GAAP**	Finance leases IAS 17	Development costs IAS 38	Employee benefits IAS 19	Income taxes IAS 12	Other restatements	**IFRS restatements**	Construction contracts IAS 11	Other reclassifications	**IFRS reclassifications**	**At 1 April 2004 IFRS**
ASSETS											
Goodwill	3 424						0			0	3 424
Intangible assets, net	956		315				315		13	13	1 284
Property, plant and equipment, net	2 262	296				(18)	278		(13)	(13)	2 527
Investments in equity method investees and other investments, net	160						0			0	160
Other non-current assets, net	1 102	683		32			715			0	1 817
Deferred taxes	1 561	4		24	(232)	7	(197)			0	1 364
Total non-current assets	**9 465**	**983**	**315**	**56**	**(232)**	**(11)**	**1 111**	**0**	**0**	**0**	**10 576**
Inventories, net	2 997		(108)				(108)	(1 153)		(1 153)	1 736
Construction contracts in progress, assets	0						0	3 394		3 394	3 394
Trade receivables, net	3 462						0	(850)		(850)	2 612
Other current assets, net	2 160					(6)	(6)	(222)	39	(183)	1 971
Short-term investments	39						0		(39)	(39)	0
Cash and cash equivalents	1 427						0		(78)	(78)	1 349
Total current assets	**10 085**	**0**	**(108)**	**0**	**0**	**(6)**	**(114)**	**1 169**	**(78)**	**1 091**	**11 062**
TOTAL ASSETS	**19 550**	**983**	**207**	**56**	**(232)**	**(17)**	**997**	**1 169**	**(78)**	**1 091**	**21 638**
LIABILITIES											
Shareholders' equity and minority interests	**97**	**(3)**	**151**	**28**	**(188)**	**(17)**	**(29)**			**0**	**68**
Bonds reimbursable with shares	**152**						**0**			**0**	**152**
Non-current provisions	3 484						0	(875)	(1 821)	(2 696)	788
Accrued pension and retirement benefits	842			2			2			0	844
Non-current financial debt	5 199	929					929		(543)	(543)	5 585
Deferred taxes	30	1	53	35	(44)		45			0	75
Total non-current liabilities	**9 555**	**930**	**53**	**37**	**(44)**	**0**	**976**	**(875)**	**(2 364)**	**(3 239)**	**7 292**
Current provisions	0						0		1 821	1 821	1 821
Current financial debt	0	56					56		465	465	521
Customers' deposits and advances	2 714						0	(2 714)		(2 714)	0
Construction contracts in progress, liabilities	0						0	6 193		6 193	6 193
Trade payables	3 130						0	686		686	3 816
Other current liabilities	3 902		3	(9)			(6)	(2 121)		(2 121)	1 775
Total current liabilities	**9 746**	**56**	**3**	**(9)**	**0**	**0**	**50**	**2 044**	**2 286**	**4 330**	**14 126**
TOTAL LIABILITIES	**19 550**	**983**	**207**	**56**	**(232)**	**(17)**	**997**	**1 169**	**(78)**	**1 091**	**21 638**

(*) Amended opening balance sheet at 1 April 2004 pursuant to the first application of the Règlement CRC 2004-03

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

(in € million)	**Year ended 31 March 2005**	Finance leases IAS 17	Development costs IAS 38	Employee benefits IAS 19	Amortisation of goodwill IFRS 3	Income taxes IAS 12	Other restatements	**IFRS restatements**	Employee benefits IAS 19	Construction contracts	Other reclassifications	**IFRS reclassifications**	**Year ended 31 March 2005**
	French GAAP												**IFRS**
SALES	**13 662**							**0**		**(135)**		**(135)**	**13 527**
Cost of sales	(11 601)	6	8	2			(2)	14	(87)	135	(27)	21	(11 566)
Selling expenses	(545)							0	(3)			(3)	(548)
Research and development expenses	(336)		(11)					(11)			(61)	(61)	(408)
Administrative expenses	(630)	6						6	(13)		(1)	(14)	(638)
INCOME FROM OPERATIONS	**550**	**12**	**(3)**	**2**	**0**	**0**	**(2)**	**9**	**(103)**	**0**	**(89)**	**(192)**	**367**
Other income (expense), net	(583)			(10)			7	(3)	123		30	153	(433)
Other intangible assets amortisation	(59)							0			59	59	0
EARNINGS (LOSS) BEFORE INTEREST AND TAXES	**(92)**	**12**	**(3)**	**(8)**	**0**	**0**	**5**	**6**	**20**	**0**	**0**	**20**	**(66)**
Financial income (expense), net	(346)	(13)		3			(22)	(32)	(20)			(20)	(398)
PRE-TAX INCOME (LOSS)	**(438)**	**(1)**	**(3)**	**(5)**	**0**	**0**	**(17)**	**(26)**	**0**	**0**	**0**	**0**	**(464)**
Income tax (charge) credit	(203)		16	6		12	6	40				0	(163)
Goodwill amortisation	(223)				223			223				0	0
NET PROFIT (LOSS)	**(864)**	**(1)**	**13**	**1**	**223**	**12**	**(11)**	**237**	**0**	**0**	**0**	**0**	**(627)**
Attributable to:													
- Group share	(865)	(1)	13	1	223	12	(11)	237					(628)
- Minority interests	1												1

CONSOLIDATED BALANCE SHEET AT 31 MARCH 2005

(in € million)	**At 31 March 2005 French GAAP**	Finance leases IAS 17	Development costs IAS 38	Employee benefits IAS 19	Amortisation of goodwill IFRS 3	Income taxes IAS 12	Other restatements	**IFRS restatements**	Construction contracts IAS 11	Other reclassifications	**IFRS reclassifications**	**At 31 March 2005 IFRS**
ASSETS												
Goodwill	3 194				223			223			0	3 417
Other intangible assets, net	909		301					301		12	12	1 222
Property, plant and equipment, net	1 468	261					(10)	251		(12)	(12)	1 707
Investments in equity method investees and other investments, net	118							0			0	118
Other non-current assets, net	1 264	650		21				671			0	1 935
Deferred taxes	1 370	4	28	20		(228)	13	(163)			0	1 207
Total non-current assets	**8 323**	**915**	**329**	**41**	**223**	**(228)**	**3**	**1 283**	**0**	**0**	**0**	**9 606**
Inventories, net	2 760		(97)					(97)	(1 009)		(1 009)	1 654
Construction contracts in progress, assets	0							0	2 601		2 601	2 601
Trade receivables, net	3 446							0	(1 054)		(1 054)	2 392
Other current assets, net	1 661						(28)	(28)	(224)	15	(209)	1 424
Short-term investments	15							0		(15)	(15)	0
Cash and cash equivalents	1 462							0		(58)	(58)	1 404
Total current assets	**9 344**	**0**	**(97)**	**0**	**0**	**0**	**(28)**	**(125)**	**314**	**(58)**	**256**	**9 475**
TOTAL ASSETS	**17 667**	**915**	**232**	**41**	**223**	**(228)**	**(25)**	**1 158**	**314**	**(58)**	**256**	**19 081**
LIABILITIES												
Shareholders' equity and minority interests	**1 256**	**(4)**	**164**	**29**	**223**	**(176)**	**(26)**	**210**			**0**	**1 466**
Bonds reimbursable with shares	**133**							**0**			**0**	**133**
Non-current provisions	3 156							0	(834)	(1 642)	(2 476)	680
Accrued pension and retirement benefits	826			**(2)**				(2)			0	824
Non-current financial debt	2 907	867						867		(493)	(493)	3 281
Deferred taxes	21	1	65	23		(52)	1	38			0	59
Total non-current liabilities	**6 910**	**868**	**65**	**21**	**0**	**(52)**	**1**	**903**	**(834)**	**(2 135)**	**(2 969)**	**4 844**
Current provisions	0							0		1 642	1 642	1 642
Current financial debt	0	51						51		435	435	486
Customers' deposits and advances	3 150							0	(3 150)		(3 150)	0
Construction contracts in progress, liabilities	0							0	5 484		5 484	5 484
Trade payables	2 992							0	445		445	3 437
Other current liabilities	3 226		3	(9)				(6)	(1 631)		(1 631)	1 589
Total current liabilities	**9 368**	**51**	**3**	**(9)**	**0**	**0**	**0**	**45**	**1 148**	**2 077**	**3 225**	**12 638**
TOTAL LIABILITIES	**17 667**	**915**	**232**	**41**	**223**	**(228)**	**(25)**	**1 158**	**314**	**(58)**	**256**	**19 081**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2005

(in € million)	Year ended 31 March 2005 French GAAP	Impact opening (*)	Finance leases IAS 17	Development costs IAS 38	Employee benefits IAS 19	Amortisation of goodwill IFRS 3	Income taxes IAS 12	Other	Year ended 31 March 2005 IFRS
Net profit (loss) - Group share	**(865)**		**(1)**	**13**	**1**	**223**	**12**	**(11)**	**(628)**
Minority interests	1								1
Depreciation and amortisation	639		48	83		(223)			547
Changes in pension assets and accrued pension / retirement benefits and pension assets, net	0				5				5
Net (gain) loss on disposal of fixed assets and investments	(51)								(51)
Share in net income (loss) of equity investees (net of dividends received)	0								0
Changes in deferred tax	185			(16)	(6)		(12)	(6)	145
Net income after elimination of non cash items	**(91)**		**47**	**80**	**0**	**0**	**0**	**(17)**	**19**
Changes in net working capital	**(36)**			**(10)**				**17**	**(29)**
Net cash provided by (used in) operating activities	**(127)**	**0**	**47**	**70**	**0**	**0**	**0**	**0**	**(10)**
Proceeds from disposals of property, plant and equipment	52								52
Capital expenditure	(182)		(13)	(70)					(265)
Decrease (increase) in other non current assets	(372)		10						(362)
Cash expenditure for acquisition of investments, net of net cash acquired	0								0
Cash proceeds from sale of investments, net of net cash sold	928								928
Net cash provided by (used in) investing activities	**426**	**0**	**(3)**	**(70)**	**0**	**0**	**0**	**0**	**353**
Capital increase	2 022								2 022
Issuance (conversion) of Bonds reimbursable with shares	(19)								(19)
Dividends paid including minorities	(5)								(5)
Net cash provided by (used in) financing activities	**1 998**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1 998**
Net effect of exchange rate	48		23						71
Net effect of new accounting pronouncement	(827)	827							0
Other changes	(42)								(42)
Decrease (increase) in net debt	**1 476**	**827**	**67**	**0**	**0**	**0**	**0**	**0**	**2 370**
Net debt at the beginning of the period	**(2 906)**	**(1 812)**							**(4 718)**
Net debt at the end of the period	**(1 430)**	**(985)**	**67**	**0**	**0**	**0**	**0**	**0**	**(2 348)**
Cash paid for income taxes	92								92
Cash paid for net interest	204								204

(*) *Impact at 1 April 2004 of the consolidation of SPEs under French GAAP (€827 million) and the obligations under financial leases (€985 million)*