ALSTOM
Form 6-K
January 13, 2004
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# FORM 6-K

# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

**Report of Foreign Private Issuer**

**Pursuant to Rule 13a-16 or 15d-16**

**of the Securities Exchange Act of 1934**

**For the month of January 2004**

**Commission File Number: 1-14836**

# ALSTOM

**(Translation of registrant s name into English)**

**25, avenue Kléber, 75116 Paris, France**

**(Address of principal executive offices)**

Indicate by check mark whether the Registrant files or will file annual reports under cover of Form 20-F or Form 40-F

Form 20-F X x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ¨ No x

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ¨ No x

Indicate by check mark whether the Registrant, by furnishing the information contained in this Form, is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the Registrant in connection with Rule 12g3-2(b)

This Report on Form 6-K includes materials that make reference and relate in part to certain proposed issuances of securities by ALSTOM. The securities mentioned in these materials have not been and will not be registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or exemption from registration under the Securities Act.

These materials are not an offer to sell securities or the solicitation of an offer to buy securities, nor shall there be any offer or sale of securities in any jurisdiction in which such offer or sale would be unlawful.

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**Enclosures:**

ALSTOM Update dated 17 November 2003 of the Reference Document in the form of an annual report filed with the Commission des Opérations de Bourse on 28 May 2003 under the number D.03-0814

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | **ALSTOM** |
|---|---|
| Date: January 13, 2004 | By: /s/ Philippe Jaffré |
| | Name: Philippe Jaffré |
| | Title: Chief Financial Officer |

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**Exhibit 99.1**

# Update dated 17 November 2003

# of the Reference Document

# in the form of an annual report

## filed with the Commission des Opérations de Bourse

## on 28 May 2003 under the number D.03-0814

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**This document is a free translation of the original French version of the update of the**

**Reference Document available upon request**

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**1. Assets and liabilities Financial position Income (loss)**

**1.1. Interim Consolidated Financial Statements at 30 September 2003**

**1.1.1. Management Discussion and Analysis**

*You should read the following discussion together with the 30 September 2003 Interim Consolidated Financial Statements. During the periods discussed in this section, we undertook several significant transactions that affected the comparability of our financial results between periods. In order to allow you to compare the relevant periods, we present certain information both as it appears in our financial statements and adjusted for business composition and exchange rate variations to improve comparability. We describe these adjustments under Change in business composition and presentation of our accounts, non-GAAP measures Comparable basis below. The figures presented as unaudited under in the following discussion were the subject of either a limited review or a sincerity review by auditors.*

**STATUS ON OUR ACTION PLAN AND MAIN EVENTS OF FIRST HALF OF FISCAL YEAR 2004**

On 12 March 2003, we presented our new strategy and action plan to overcome three key difficulties: an insufficient level of profitability and cash generation, past problems with the GT24/GT26 gas turbines and to a lesser extent the UK Trains contracts and a high level of debt. This plan has been launched throughout the Group. We have achieved significant progress during the first half of fiscal year 2004 and in particular we have:

- built a more effective organisation;
- secured  2.5 billion from the disposal programme;
- achieved the expected progress in resolving specific operational problems (GT24/GT26 heavy duty gas turbines and UK trains issues);
- launched the restructuring plans; and
- agreed on a comprehensive financing package to strengthen our financial structure.

**Building a more effective organisation**

*Implementation of a more effective organisation in the Sectors*

Our former Power Sector, which accounted for more than half of Group sales in fiscal year 2003, was reorganised into three new Sectors on 1 April 2003; the former Power Sector management layer has been removed and the former Segments have been merged. The new structure is now fully in place and is reflected in the figures presented in this section.

On 7 October 2003, the management of our Transport Sector announced a new organisation, to be effective as of 1 January 2004. The Sector will be organised in four international regions, with strengthened customer focus and with clearer definition of responsibility for project execution.

A simpler and more reactive Group wide structure is being implemented, with clearer P&L accountability in the Sectors. Empowerment and full responsibility are given to the Sector management with a clearer relationship between business and country organisations.

*Reorganisation of International Network and Corporate*

Our objective is to reduce our overhead significantly, notably through the simplification of administrative processes and a reduction of management layers. Some central functions have been reallocated to the Sectors or eliminated. As a consequence, the Corporate and the International Network organisations have been reorganised and reduced by more than a third. Overall, savings are targeted to reach 35% of related costs as compared with fiscal year 2003 on an annual basis by March 2005. Vigorous plans have been launched in the Sectors where the target is to save 15% of overhead costs in each Sector by March 2005.

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*Stricter risk management*

We are exercising a stricter control of the contractual terms and conditions and the margins in our order intake, notably with the creation of a central Risk Committee headed by the Chairman and CEO which was set up in March 2003 to review all major bids and contracts under execution. We are continuously improving the processes in the Sectors and are setting up a project database allowing more efficient central control. A new Risk Management Director has been appointed and new processes established to ensure more effective supervision of the Sectors.

**Disposal programme**

As part of our new plan, in March 2003 we increased our disposal programme target proceeds from €1.6 billion as intended at the beginning of fiscal year 2003, to €3.0 billion by March 2004. We maintain our objective of total proceeds of €3 billion and have now secured €2.5 billion, but in order to fully value the assets to be disposed, we have extended the period by one year to March 2005. Our disposal programme comprises:

- €600 million of targeted proceeds from real estate disposals, of which €415 million was achieved during fiscal year 2003 and the first half of fiscal year 2004; and

- €2,400 million of targeted proceeds from business disposals, including both the T&D Sector and the Industrial Turbines businesses. €151 million of this target was achieved during fiscal year 2003 with the disposal of our activities in South Africa and of our captive insurance company. We expect that the sale of our Industrial Turbines businesses will generate net proceeds of approximately €950 million (of which €842 million has been received to date). We sold our T&D Sector for an enterprise value of €950 million, subject to closing adjustments. We expect to receive the major part of these proceeds in January 2004.

*Disposal of our Industrial Turbines businesses*

On 26 April 2003, we signed binding agreements to sell our small gas turbines business and medium-sized gas turbines and industrial steam turbines businesses in two transactions to Siemens AG.

The first transaction covered our small gas turbines business, and the second transaction covered our medium-sized gas turbines and industrial steam turbines businesses.

The Industrial Turbines businesses accounted for approximately 10% of Power Sector revenues in fiscal year 2003. They include:

- the small gas turbines business (3 MW 15 MW), based principally in the UK;

the medium-sized gas turbines business (15 MW   50 MW), based principally in Sweden; and

the industrial steam turbines (up to about 100 MW) business, with manufacturing sites in Sweden, Germany and the Czech Republic, and global customer service operations.

In the year ended 31 March 2003, Industrial Turbine businesses generated sales of approximately 1.25 billion and had an operating margin of approximately 7%. At 31 March 2003, these businesses employed around 6,500 people.

On 30 April 2003, we announced the closing of the sale of the small gas turbines business. Completion of this transaction followed receipt of a formal derogation from the European Commission under EC Merger Regulations, allowing ownership of the business to be transferred to Siemens AG with immediate effect. On 10 July 2003 we announced that the European Commission had granted formal clearance under EC Merger Regulations for the disposal of both the small gas turbines and the medium gas turbines and industrial steam turbines businesses.

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On 1 August 2003 we announced that we had completed the major part of the disposal of the medium gas turbines and industrial steam turbines businesses. Completion of this second stage of the disposal followed approval from both the European Commission and US merger control authorities.

Certain minor sites of our Industrial Turbines business have yet to be transferred to Siemens pending completion of legal procedures, for example, relating to anti-competition laws in select jurisdictions. To date we have received net proceeds of €842 million from the disposal of these businesses and an additional €125 million is currently being held in escrow to cover certain post-closing adjustments and indemnities, if any. Unless otherwise used, 50% of these escrowed amounts are to be released to us on the business day following the first anniversary of the sale of the small gas turbines business (April 2004), and the remainder on the business day following the second anniversary of the sale (April 2005). See as well Note 4 to the Interim Consolidated Financial Statements.

*Disposal of our T&D activities*

The process to dispose of the T&D Sector was announced on 12 March 2003. On 25 September 2003, we signed a binding agreement to sell our T&D activities (excluding the Power Conversion business) to Areva for an entreprise value of €950 million, subject to closing adjustments. This transaction is expected to close in January 2004.

*Disposal of Real Estate*

In April 2003, we received proceeds of €138 million in respect of the disposal of 15 sites in France, Spain, Switzerland and Belgium and, in July 2003, we received proceeds of €10 million in respect of the disposal of one site in France. Total proceeds to date from our real estate programme have reached € 415 million (€267 million received in fiscal year 2003 and €148 million in the first half of fiscal year 2004). Select further real estate disposal projects are currently progressing.

**Progress on specific operational problems**

*GT24/GT26 heavy-duty gas turbines*

During the first half of fiscal year 2004, we continued to implement technical improvements to our GT24/GT26 gas turbines. The new upgrade packages have been tested successfully and deployment in the field has started. The machines reliability has been demonstrated with 72 units in operation and the cumulation of more than 730,000 operating hours. In addition, the commercial situation is becoming clearer with all of the cases of client litigation, which affected 7 units as of March 2003, now resolved via satisfactory commercial settlements.

Related cash outflow over the first half of fiscal year 2004, €394 million, has decreased as compared with the second half of fiscal year 2003, €657 million. We expect our cash outflow (for Power Turbo-Systems and Power Service) to be around €800 million,

600 million and 200 million in fiscal years 2004, 2005 and 2006 respectively compared with 1,055 million spent on this matter in fiscal year 2003.

We reported on 31 March 2003 that we had retained provisions and accrued contract costs after taking into account mitigation targets of 454 million. As of 30 September 2003, the mitigation target has been reduced by 118 million to 336 million. This reduction included 22 million related to changes in exchange rates, 68 million of achieved mitigation actions and certain planned mitigation actions which did not materialise resulting in a corresponding 28 million charge in our operating income for the first half of fiscal year 2004. As of 30 September 2003, we retained 1,193 million of related provisions and accrued contract costs outflow (for Power Turbo-Systems and Power Service). This amount does not include 336 million of exposure, which we consider will be mitigated by appropriate action plans.

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*UK Trains*

All 119 regional trains have been delivered and are now in service but costs related to the in service reliability improvement programme are still being incurred. On the West Coast Main Line contract, 28 of the 53 trains have been delivered in line with the customer s revised expectations. On completion of the WCML contract in September 2004, our UK new build activities will be halted as we will convert to a substantial service/maintenance base in the UK.

*US Trains*

On 30 June 2003, we announced that we were 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 our US subsidiaries. Following receipt of these letters, the SEC and the FBI began informal inquiries. We believe the FBI inquiry is currently dormant.

The Transport Sector s operating loss in fiscal year 2003 included an additional charge of �73 million, recorded following contract losses at ALSTOM Transportation Inc. (ATI). This charge was included in the Consolidated Financial Statements as approved at the General Shareholders Meeting on 2 July 2003.

In addition, following the discovery of accounting improprieties at ATI, we subsequently conducted reviews of other ATI contracts and, as a result, we recorded costs of �102 million (�94 million of contract provisions and write-down of receivables and �8 million of professional fees and other costs) in relation to the US Transport business. Slightly more than half of this amount related to a single equipment supply and maintenance project in the United States when we recorded significant provisions in respect of expected contract losses relating to a number of important performance related issues. The �102 million of costs is reflected in our Consolidated Financial Statements for the first half of fiscal year 2004.

**Restructuring and cost reduction programmes**

We have launched restructuring and cost-reduction programmes necessary to adapt our organisation and industrial base to current market conditions. We consider these programmes to be vital as we believe that the power market downturn is set to continue for some years before returning to the long term fundamental growth trend. We expect that these programmes will improve our operational performance. As we have accelerated our restructuring plans, we expect to accrue significantly more related charges in fiscal year 2004 than in fiscal year 2003.

We are currently informing and consulting with trade union representatives regarding the consequences of the overhead reduction and industrial restructuring plans. This process is expected to continue in the coming months. We have to date announced plans to reduce our workforce by approximately 7,300 employees in aggregate world wide. Of the proposed reduction in headcount, approximately 2,000 positions are outside Europe (mainly the US and Asia) and 5,300 positions are in Europe. The trade union consultation process at the European level has been completed, and local plans, country by country, are being implemented.

The announced reduction in employee numbers impacts mainly Power Turbo-Systems for approximately 3,300 employees, Transport for 2,000 employees, Power Environment for 1,000 employees, Power Service for 500 employees, and Head offices for 200 employees. We have not implemented restructuring plans in our Marine Sector other than the closure of our small yard in Saint-Malo already announced in fiscal year 2003, while some staff reduction has occurred by natural attrition (retirement, early retirement).

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**Financing package**

*Initial financing package*

As part of our 12 March 2003 strategy and action plan, we reported that we needed to strengthen our financial base by conducting a capital increase and refinancing our debt. In the months following the announcement of our new plan, however, the markets for our products and services continued to deteriorate, resulting in reduced levels of orders. Furthermore, problems in obtaining contract performance bonds due to a general tightening of the bond market and concerns within that market on our position exacerbated the deterioration in order intake. Our worsening financial situation made negotiations with our main lending banks in connection with the proposed renewal of our credit lines and the capital increase more difficult. By the end of July 2003, we faced the risk of not being able to meet our short-term financial commitments, which led us to renegotiate with more than 30 of our banks with the support of the French State. We reached agreement on a comprehensive financing package for the Group, which was designed to provide adequate long term financing and short term liquidity.

This initial financing package announced on 6 August 2003 included:

- a combined €600 million capital increase consisting of a €300 million underwritten capital increase with preferential subscription rights for existing shareholders, and a €300 million capital increase reserved for the French State;
- a €1 billion issuance of bonds mandatorily reimbursable with shares ( ORA , obligations remboursables en actions) with preferential subscription rights for existing shareholders;
- subordinated loans with 6-year maturity totalling €1,200 million. A French State-controlled financial institution agreed to provide €200 million of the total amount of these subordinated loans;
- a contract bonding guarantee facility of €3,500 million provided by a syndicate of banks to support our continued commercial activity. A French State-controlled financial institution agreed to counter guarantee 65% of the aggregate amount of these bonds and guarantees; and
- short term facilities amounting to €600 million from a syndicate of banks and the French State.

We were informed on 8 and 14 August 2003 that the French State notified and provided information to the European Commission relating to its commitments under the proposed financing package, pursuant to European Community laws. As a result of this notification, the European Commission began a preliminary examination of the French State s measures described in the August notification. The uncertainty generated by this situation substantially worsened the concerns of our customers and suppliers as to our financial stability and our long term viability, and negatively impacted our commercial activity and sources of liquidity. Following the European Commission s preliminary examination of the French State s measures described in the August notification, it opened a formal investigation procedure under Article 88(2) of the EC Treaty on 17 September 2003. When opening this procedure, the Commission stated that it believed the conditions for the issuance of an injunction were present pursuant to applicable EU regulations. Specifically, the Commission threatened to oppose the implementation of certain parts of the financing package regarded as  irreversible  until it had reached a final decision on their State aid legitimacy and compatibility with the common market regulations. On 17 September 2003, the Commission announced that it had authorised the Competition Commissioner to issue an injunction unless the French authorities agreed not to participate in measures that would automatically

and irreversibly result in the French State s participation in our equity capital prior to clearance by the Commission of the financing package.

*Revised financing package*

As a consequence, we entered into new discussions with our banks, the French State and the European Commission towards designing a revised package to meet our financial needs while complying with European

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Commission requirements. On 22 September 2003, we announced that we had reached a revised agreement on our financing package. While this revised package is still subject to European Commission review, the Commission has announced that it does not intend to issue an injunction against any parts of the package, and the implementation of the related transactions may go forward without delay.

On 8 November 2003, the European Commission announced formally, in the Official Journal of the European Union, that it was extending the procedure to determine whether the package is compatible with the common market.

The revised financing package includes:

a 300 million capital increase. The capital increase will involve the subscription of shares directly by a syndicate of banks, with the simultaneous distribution of free warrants to existing shareholders allowing them to purchase the shares directly from the banks. The subscription price for the shares and the exercise price of the warrants will be 1.25 per share;

300 million of subordinated bonds with a 20 year maturity to be issued to the French State, which will be automatically reimbursable with shares upon the approval of the reimbursement with shares by the European Commission ( TSDDRA or titres subordonnés à durée déterminée remboursables en actions). These subordinated bonds will carry an annual interest rate of 2% until a decision of the European Commission is obtained, at which point (if the decision is negative) the rate will be adjusted to EURIBOR plus 5%, of which 1.5% will be capitalised annually and paid upon reimbursement. The issue price for each bond will be 1.25, and each will be reimbursable with one share, subject to antidilution adjustments;

200 million of subordinated bonds with a 15 year maturity to be issued to the French State ( TSDD or titres subordonnées à durée déterminée). These subordinated bonds will carry an interest rate of EURIBOR plus 5%, of which 1.5% will be capitalised annually and paid upon reimbursement; and

an issuance of approximately 900 million of bonds mandatorily reimbursable with shares (ORA) with preferential subscription rights for existing shareholders, which is to be underwritten by a syndicate of banks. This amount may be increased to 1 billion. The issue price of the ORA is 1.40 per bond, representing 100% of each bond s principal amount. The ORA are to mature on 31 December 2008. Each ORA will be reimbursable at maturity with one share, subject to anti-dilution adjustments. ORA holders will have the right to receive shares prior to maturity, based on the same ratio.

The offerings described above are to be submitted for approval by our shareholders at an Ordinary and Extraordinary Meeting to be held on 18 November 2003 (on second call). The capital increase, ORA, TSDDRA and TSDD offerings will be implemented as soon as possible following shareholder approval.

Assuming that the offerings described above are approved for and take place, and that the European Commission approves the reimbursement with shares of the TSDDRA, the French State would own 31.5% of our shares and voting rights following the reimbursement of the TSDDRA, before taking into account the conversion or reimbursement of the ORAs. After taking into account the reimbursement of the ORAs, the French State would own 16.25% of our shares and voting rights.

The revised financing package also includes:

subordinated loans with 5-year maturity totalling approximately 1,500 million ( PSDD or *prêt subordonné à durée déterminée*). The banks have agreed to provide approximately 1,200 million of the total amount of these subordinated loans, with the remainder to be provided by the French State. The loans may be increased by up to 100 million subject to certain conditions. The rate of interest on these subordinated loans is EURIBOR plus 4.5%, of which 1.5% will be capitalised annually and paid upon reimbursement. The Subordinated Debt Facility Agreement relating to these loans was entered into on 30 September 2003; and

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a contract bonding guarantee facility of 3,500 million provided by a syndicate of banks to support our continued commercial activity. A French State-controlled financial institution will counter guarantee 65% of the aggregate amount of these bonds. This facility was entered into on 29 August 2003, was amended on 1 October 2003 and is fully in place.

Pending our receipt of proceeds from the financing package and the disposal of our T&D activities, our short-term liquidity is being supported through the purchase of commercial paper (billets de trésorerie) by a syndicate of banks (for 120 million), and the purchase of commercial paper by the *Caisse des Dépôts et Consignations*, a financial institution controlled by the French State (for 300 million). This commercial paper will be rolled over until 12 months after the date of final issuance occurring before 8 February 2004. In addition, a syndicate of banks financed the early reimbursement to us of 180 million of debt due to us from two special purpose entities in connection with Marine vendor financing. Further, the *Caisse des Dépôts et Consignations* has also committed to provide us with up to 900 million in commercial paper financing which will be available to us until the long term portion of our financing package becomes available (expected in December 2003), except that 100 million may remain outstanding until we receive the main proceeds from the sale of our T&D activities (expected in January 2004). All these facilities are fully in place.

For information about our new liquidity profile, please see Liquidity and capital resources Maturity and liquidity below.

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## GENERAL COMMENTS ON ACTIVITY AND RESULTS

### Key financial figures

The following tables set out, on a consolidated basis, some of our key financial and operating figures:

| **Total Group**<br>**Actual figures** | **First Half Sept. 02 (Unaudited)** | **2nd Half March 03 (Unaudited)** | **Full Year 2002/03** | **First Half Sept. 03 (Unaudited)** | **% Variation Sept. 03/ Sept 02** | **% Variation Sept. 03/ March 03** |
|---|---|---|---|---|---|---|
| | | | **(in € million)** | | | |
| Order backlog | 33,611 | 30,330 | 30,330 | **27,174** | (19%) | (10%) |
| Orders received | 10,537 | 8,586 | 19,123 | **7,439** | (29%) | (13%) |
| Sales | 10,769 | 10,582 | 21,351 | **8,854** | (18%) | (16%) |
| Operating income | 542 | (1,049) | (507) | **132** | | |
| Operating margin | 5.0% | (9.9%) | (2.4%) | **1.5%** | | |
| EBIT | 322 | (1,451) | (1,129) | **(296)** | | |
| Capital Employed | 6,697 | 4,949 | 4,949 | **3,903** | | |
| ROCE | 9.6% | n/a | n/a | **n/a** | | |
| Net income | 11 | (1,443) | (1,432) | **(624)** | | |
| Free Cash Flow[1] | 75 | (340) | (265) | **(674)** | | |

| **Total Group**<br>**Comparable figures[2]** | **First Half Sept. 02 (Unaudited)** | **2nd Half March 03 (Unaudited)** | **Full Year 2002/03 (Unaudited)** | **First Half Sept. 03 (Unaudited)** | **% Variation Sept. 03/ Sept 02** | **% Variation Sept. 03/ March 03** |
|---|---|---|---|---|---|---|
| | | | **(in € million)** | | | |
| Order backlog | n/a | 28,496 | 28,496 | **27,174** | n/a | (5%) |
| Orders received | 9,677 | 7,973 | 17,650 | **7,439** | (23%) | (7%) |
| Sales | 9,697 | 9,886 | 19,583 | **8,854** | (9%) | (10%) |
| Operating income | 495 | (998) | (503) | **132** | | |
| Operating margin | 5.1% | (10.1%) | (2.6%) | **1.5%** | | |

| **Total Group**<br>**Proforma figures[3]** | **First Half Sept. 02 (Unaudited)** | **2nd Half March 03 (Unaudited)** | **Full Year 2002/03 (Unaudited)** | **First Half Sept. 03 (Unaudited)** | **% Variation Sept. 03/ Sept 02** | **% Variation Sept. 03/ March 03** |
|---|---|---|---|---|---|---|
| | | | **(in € million)** | | | |
| Order backlog | n/a | 26,351 | 26,351 | **24,844** | n/a | (6%) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Orders received | 8,264 | 6,292 | 14,556 | **5,541** | (33%) | (12%) |
| Sales | 8,660 | 8,418 | 17,078 | **7,308** | (16%) | (13%) |
| Operating income | 433 | (1,243) | (810) | **34** | | |
| Operating margin | 5.0% | (14.8%) | (4.7%) | **0.5%** | | |

(1) See Change in business composition and presentation of our accounts, non-GAAP measures Use and reconciliation of non-GAAP financial measures .

(2) Adjusted for changes in business composition and exchange rates. See Change in business composition and presentation of our accounts, non-GAAP measures Comparable basis .

(3) Adjusted to reflect the effect of the disposals of the T&D Sector, excluding the Power Conversion business, and our Industrial Turbines activities. For the derivation of pro-forma sales, operating income and operating margin, see our Pro-forma Consolidated Financial Statements year ended 31 March 2003 and half-year ended 30 September 2003 for more details. We derived order backlog and orders received in an analogous manner.

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**General comments on activity**

Since 31 March 2003, we have continued to face market uncertainties, a tightening contract performance bond market and, more generally, a weak global economy. The power generation new equipment and cruise-ship markets remained at historically low levels. The transport market remained relatively healthy, but as a whole lower than the record level of the previous year. The power service market remained sound. Against these globally difficult market conditions, uncertainty regarding the Group s financial condition contributed to a significant decline in orders received during the first half of the fiscal year.

**Orders received and backlog**

In addition to weak markets for equipment and projects, the Group s commercial activity for the first half of fiscal year 2004 was significantly impacted by customer uncertainty as to our financial future, as well as by difficulties in issuing contract bonds. These two factors had a number of significant negative impacts on our commercial activity during the period preceding the announcement of our new financing package. In light of the long-term nature of many of our projects, customers delayed placing new orders or did not place orders with us and/or delayed making advance or progress payments pending clarification of our financial perspectives.

This contributed to the low level of orders received during the first half of fiscal year 2004. Orders decreased on a comparable basis by 23% and 7% compared with the first and second halves of fiscal year 2003 respectively (29% and 13% respectively on an actual basis). Our backlog was 27,174 million at 30 September 2003, representing approximately 18 months of sales.

**Sales**

On an actual basis, sales decreased by 18 % in the first half of fiscal year 2004 as compared with first half of fiscal year 2003. This is due to the decrease in orders received in fiscal year 2003, mainly in Power Turbo-Systems as a result of the strong decline in orders that started to materialise last year as well as to the disposal of our Industrial Turbines businesses and the decline of the US dollar against the Euro. On a comparable basis, sales decreased by 9% versus the first half of fiscal year 2003.

**Operating income**

Following the discovery of accounting improprieties at ATI (as announced on 30 June 2003 just prior to the General Shareholders Meeting on 2 July 2003), we subsequently conducted reviews of other ATI contracts. They led management to make revised estimates of costs to complete contracts in our Transport Sector, leading to additional charges of 102 million in relation to the US Transport business. Separately, two key subcontractors on a utility boiler contract in the US declared bankruptcy, causing a charge estimated at 60 million for the Power Environment Sector. In addition, the decrease in sales, which was not completely offset by a corresponding decrease in operating expenses due to the time necessary to realise the benefits of our restructuring programmes, led to a decrease in our operating income.

As a consequence, our operating income in the first half of the fiscal year 2004 was 132 million or 1.5% of sales.

**Net income/loss**

Net loss after goodwill amortisation was 624 million as a result of the low level of operating income, higher financial expenses and restructuring charges and lower than anticipated deferred tax credits.

**Free Cash Flow**

Our free cash flow was (674) million in the first half of fiscal year 2004 as a result of:

- cash outflows of 394 million on the GT24/GT26 gas turbines (as compared with 1,055 million for the full fiscal year 2003);

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higher restructuring and financial expenses; and

deterioration of our working capital, related among other things to the strong decline in orders received in the first half of fiscal year 2004 as a result of the uncertainty generated by our financial situation during the summer and to customers and suppliers seeking payment terms that were less favourable to us.

**RECENT DEVELOPMENTS**

There have been no major developments since 30 September 2003. However, we have seen an encouraging rebound in orders in our Sectors where orders received and secured (meaning the contract is signed but not formally registered in our backlog because it has not yet come into force) by the end of October represented approximately €1,400 million (out of which €700 million for Transport).

**OUTLOOK**

The timing of recovery in the power generation equipment and cruise-ship markets is uncertain over the short to medium-term, while we believe that the transport market should remain sound. We expect overall demand in power generation equipment to remain generally low over the coming months but we are confident that market fundamentals will lead, in the medium to long-term, to growing demand for both new equipment and service. We believe as well that the financing package announced in September 2003 will positively impact our commercial prospects. Sales should continue to decrease in the second half of fiscal year 2004 when compared with fiscal year 2003 due to the lower level of orders received in fiscal year 2003 mainly in the former Power Sector.

The current situation regarding our markets and the extent and timing of the impact of our financing package on our commercial operations make it difficult to predict our likely future financial results. For internal planning purposes, however, we have set a number of financial objectives, including achieving consolidated sales of more than €15 billion (excluding our T&D and Industrial Turbines activities) and an operating margin of approximately 6% by fiscal year 2006. Our ability to achieve these objectives depends on the results of our extensive restructuring and cost reduction plans, the recovery and downsizing of Power Turbo-Systems, the closing out of the GT24/GT26 issue, the implementation of the financing package, the improvement of our Transport operating margin to 7%, and the progressive shift of our business mix towards more profitable after market and service activities.

We have also set internal objectives with respect to our free cash flow and our economic debt.

We expect our free cash flow to be negative through the end of fiscal year 2005, and we are currently anticipating approximately €(1,200) million of free cash flow on a cumulative basis for fiscal years 2004 and 2005. This figure takes into account anticipated cash outflows linked to the GT24/GT26 gas turbines, which will continue in the second half of fiscal year 2004 and in fiscal year 2005, as well as significant restructuring costs. We have an objective to achieve positive cash flow once the cash outflows on the GT24/GT26 cease.

We have set as an objective to reduce our economic debt below 2.5 billion by March 2005 (on the basis of our current definition and before any change in accounting principles and without taking into account the conversion of the 20 year-bond reserved for the French State) through the proceeds from disposals, the 300 million capital increase and the issuance of mandatory convertible bonds, each of which is part of our financing package described above.

The foregoing are forward-looking statements, and as a result they are subject to uncertainties. The success of our strategy and action plan, our sales, operating margin and financial position could differ materially from the goals and targets expressed above if any of the risks we describe in our Annual Report for fiscal year 2003 as updated and in our Annual Report on Form 20F in the sections entitled Forward Looking Statements and Risk Factors , or other unknown risks, materialise.

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**CHANGE IN BUSINESS COMPOSITION AND PRESENTATION OF OUR ACCOUNTS, NON-GAAP MEASURES**

**Changes in business composition**

Our results for the first half of fiscal year 2004 as compared with the first and second halves of fiscal year 2003 have been significantly impacted by the disposal of our Industrial Turbines businesses and to a lesser extent by the disposal of our activities in South Africa in September 2002. Our Industrial Turbines were disposed of under two transactions: our small gas turbines business was sold with effect from 30 April 2003 and our medium-sized gas turbines and industrial steam turbines businesses were sold with effect from 1 August 2003. Certain minor sites have yet to be transferred to Siemens pending completion of legal procedures relating, for example, to anti-competition laws in select jurisdictions.

**Use and reconciliation of non-GAAP financial measures**

From time to time in this section, we disclose figures which are non-GAAP financial indicators. Under the rules of the United States Securities and Exchange Commission ( SEC ) and the Commission des Opérations de Bourse ( COB ), a non-GAAP financial indicator is a numerical measurement of our historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measurement calculated and presented in accordance with GAAP in our consolidated income statement, consolidated balance sheet or consolidated statement of cash flows; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measurement so calculated and presented. In this regard, GAAP refers to generally accepted accounting principles in France.

*Free cash flow*

We define free cash flow to mean net cash provided by (used in) operating activities less capital expenditures, net of proceeds from disposals of property, plant and equipment and Increase (decrease) in variation in existing receivables considered as a source of funding of our activity. Total proceeds from disposals of property, plant and equipment in our Consolidated Statements of Cash Flows include proceeds from our real estate disposal programme designed under our strategy and action plan that we eliminate from the calculation of the free cash flow given that this programme is non-recurring and that we consider only the receipt of minor proceeds as part of our normal operations.

Free cash flow does not represent net cash provided by (used in) operating activities, as calculated under French GAAP. The most directly comparable financial measure to Free cash flows calculated and presented in accordance with French GAAP is Net cash provided by (used in) Operating activities, and a reconciliation of free cash flows and Net cash provided by (used in) operating activities is presented below.

| **Total Group**<br><br>**Actual figures** | **First Half Sept. 02**<br><br>**(Unaudited)** | **2nd Half March 03**<br><br>**(Unaudited)** | **Full Year 2002/03** | **First Half Sept. 03**<br><br>**(Unaudited)** |
|---|---|---|---|---|

| | | (in € million) | | |
|---|---|---|---|---|
| **Net cash provided by (used in) operating activities** | **83** | **(620)** | **(537)** | **(731)** |
| Elimination of variation in existing receivables | 152 | 509 | 661 | 144 |
| Capital expenditures | (200) | (210) | (410) | (105) |
| Proceeds from disposals of property, plant and equipment | 40 | 212 | 252 | 166 |
| Elimination of proceeds from our programme of disposal of real estate assets | | (231) | (231) | (148) |
| **Free Cash Flow** | **75** | **(340)** | **(265)** | **(674)** |

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We use the free cash flow measure both for internal analysis purposes as well as for external communications, as we believe it provides more accurate insight into the actual amount of cash generated or used by our operations. Management believes the presentation of free cash flow is beneficial to investors for this reason.

*Economic Debt*

We define economic debt to mean net debt (or financial debt net of short term investments and cash and cash equivalents) plus cash proceeds from sale of trade receivables ( securitisation of existing receivables ). Economic debt does not represent our financial debt as calculated under French GAAP, and should not be considered as an indicator of our currently outstanding indebtedness, as trade receivables securitised are sold irrevocably and generally without recourse. The financial measure most directly comparable to economic debt calculated and presented in accordance with French GAAP is financial debt, and a reconciliation of economic debt and financial debt as measured in accordance with French GAAP is presented below.

| **Total Group**<br>**Actual figures** | **At 30 Sept. 2002**<br>**(Unaudited)** | **At 31 March 2003** | **At 30 Sept. 2003**<br>**(Unaudited)** |
|---|---|---|---|
| | | **(in  million)** | |
| Financial Debt | 4,312 | 6,331 | 6,076 |
| Undated subordinated notes[1] | 250 | | |
| Short term investments | (265) | (142) | (98) |
| Cash and cash equivalents | (2,126) | (1,628) | (1,671) |
| Cash proceeds from sale of trade receivables | 884 | 357 | 212 |
| **Economic debt** | **3,055** | **4,918** | **4,519** |

(1) Our undated subordinated notes have been reclassified in Financial debt as at 31 March 2003.

We use the economic debt measure both for internal analysis purposes as well as for external communications, as we believe it provides a more accurate measure by which to analyse our total external sources of funding for our operations and its variation from one period to another.

*Capital Employed/Return on Capital Employed (ROCE)*

We define capital employed to mean fixed assets, net, plus current assets (excluding net amount of securitisation of existing receivables), less provisions for risks and charges and current liabilities. The main part of our other fixed assets is allocated to Corporate s capital employed because they are managed by Corporate; they mainly include loans in respect of Marine Vendor Financing and prepaid assets-pensions. Further, we use capital employed to calculate return on capital employed (ROCE), which we define as EBIT divided by capital employed. Capital employed does not represent current assets, as calculated under French GAAP. The most directly comparable financial measure to capital employed and presented in accordance with French GAAP is current assets, and a reconciliation of capital employed and current assets is presented below. Capital employed by Sector and for the Group as a whole are also presented in Note 16 to the 30 September 2003 Interim Consolidated Financial Statements.

| Total Group<br>Actual figures | At 30 Sept. 2002<br>(Unaudited) | At 31 March<br>2003 | At 30 Sept. 2003<br>(Unaudited) |
|---|---|---|---|
| | | (in  million) | |
| Current assets | 13,010 | 11,728 | 11,031 |
| Cash proceeds from sale of trade receivables | 884 | 357 | 212 |
| Current liabilities | (13,956) | (12,917) | (12,173) |
| Provisions for risk and charges | (3,197) | (3,698) | (3,500) |
| Fixed assets | 9,955 | 9,478 | 8,333 |
| **Capital employed** | **6,696** | **4,948** | **3,903** |

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We use the capital employed and ROCE measures both for internal analysis purposes as well as for external communications, as we believe they provide insight into the amount of financial resources employed by a Sector or the Group as a whole and the profitability of a Sector or the Group as a whole in regard to the resources employed. Management believes the presentation of capital employed and ROCE is useful to investors for this reason.

**Comparable basis**

The figures presented in this section include performance indicators presented on an actual basis and on a comparable basis. Figures have been given on a comparable basis in order to eliminate the impact of changes in business composition and changes resulting from the translation of our accounts into Euro following the variation of foreign currencies against the Euro. All figures provided on a comparable basis are non-GAAP measures. We use figures prepared on a comparable basis both for our internal analysis and for our external communications, as we believe they provide means by which to analyse and explain variations from one period to another. However, these figures provided on a comparable basis are unaudited and are not measurements of performance under either French or US GAAP.

To prepare figures on a comparable basis, we have performed the following adjustments to the corresponding figures presented on an actual basis:

- restatement of the actual figures for the first and second halves of fiscal year 2003 using 30 September 2003 exchange rates for order backlog, orders received, sales and operating income and elements constituting our operating income; and

- adjustments due to changes in business composition have then been made to the same line items for first and second halves of fiscal year 2003. More particularly contributions of material activities sold since 1 April 2003 have been excluded from the figures reported in the first and second halves of fiscal year 2003, mainly the South Africa business disposed of in September 2002 and Industrial Turbine businesses disposed of in the first half of fiscal year 2004.

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The following table sets out the estimated impact of changes in exchange rates and in business composition ( Scope impact ) for all indicators disclosed in this document both on an actual basis and on a comparable basis for the first and second halves of fiscal year 2003. No adjustment has been made on figures disclosed for the first half of fiscal year 2004.

| | 1st Half September 2002 | | | | 2nd Half March 2003 | | | | Full year 2002/03 | Full year 2002/03 | 1st Half Sept. 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Unaudited figures** | **Actual figures** | **Exchange rate** | **Scope impact** | **Comparable figures** | **Actual figures** | **Exchange rate** | **Scope impact** | **Comparable figures** | **Actual figures** | **Comparable figures** | **Actual figures** |
| | | | | | | **(in  million)** | | | | | |
| Power | | | | | | | | | | | |
| Turbo-systems | n/a | n/a | n/a | n/a | 3,445 | (53) | 0 | 3,392 | 3,445 | 3,392 | 3,027 |
| Power Environment | n/a | n/a | n/a | n/a | 3,863 | (42) | 0 | 3,821 | 3,863 | 3,821 | 3,452 |
| Power Service | n/a | n/a | n/a | n/a | 2,793 | (142) | 0 | 2,651 | 2,793 | 2,651 | 2,860 |
| Industrial Turbines | n/a | n/a | n/a | n/a | 1,285 | (29) | (1,256) | 0 | 1,285 | 0 | 0 |
| **Power** | **13,599** | **n/a** | **n/a** | **n/a** | **11,386** | **(266)** | **(1,256)** | **9,864** | **11,386** | **9,864** | **9,339** |
| T&D | 2,960 | (112) | 0 | 2,848 | 2,694 | (71) | 0 | 2,623 | 2,694 | 2,623 | 2,894 |
| Transport | 14,784 | (739) | 0 | 14,045 | 14,675 | (240) | 0 | 14,435 | 14,675 | 14,435 | 13,795 |
| Marine | 2,229 | 0 | 0 | 2,229 | 1,523 | 0 | 0 | 1,523 | 1,523 | 1,523 | 1,041 |
| Corporate and other | 39 | (1) | 0 | 38 | 52 | (1) | 0 | 51 | 52 | 51 | 105 |
| **ORDER BACKLOG** | **33,611** | **n/a** | **n/a** | **n/a** | **30,330** | **(578)** | **(1,256)** | **28,496** | **30,330** | **28,496** | **27,174** |
| Power | | | | | | | | | | | |
| Turbo-systems | 1,368 | (65) | 0 | 1,303 | 453 | (9) | 0 | 444 | 1,821 | 1,747 | 839 |
| Power Environment | 1,469 | (116) | 0 | 1,353 | 1,114 | (14) | 0 | 1,100 | 2,583 | 2,453 | 1,042 |
| Power Service | 1,686 | (131) | 0 | 1,555 | 1,248 | (57) | 0 | 1,191 | 2,934 | 2,746 | 1,368 |
| Industrial Turbines | 508 | (18) | (170) | 320 | 757 | (16) | (421) | 320 | 1,265 | 640 | 320 |
| **Power** | **5,031** | **(330)** | **(170)** | **4,531** | **3,572** | **(96)** | **(421)** | **3,055** | **8,603** | **7,586** | **3,569** |
| T&D | 2,067 | (78) | (85) | 1,904 | 1,664 | (44) | 0 | 1,620 | 3,731 | 3,524 | 1,801 |
| Transport | 3,300 | (165) | 0 | 3,135 | 3,112 | (51) | 0 | 3,061 | 6,412 | 6,196 | 1,672 |
| Marine | 26 | 0 | 0 | 26 | 137 | 0 | 0 | 137 | 163 | 163 | 340 |
| Corporate and other | 113 | (3) | (29) | 81 | 101 | (1) | 0 | 100 | 214 | 181 | 57 |
| **ORDERS RECEIVED** | **10,537** | **(576)** | **(284)** | **9,677** | **8,586** | **(192)** | **(421)** | **7,973** | **19,123** | **17,650** | **7,439** |
| Power | | | | | | | | | | | |
| Turbo-systems | 2,413 | (144) | 0 | 2,269 | 1,444 | (29) | 0 | 1,415 | 3,857 | 3,684 | 1,211 |
| Power Environment | 1,457 | (142) | 0 | 1,315 | 1,641 | (48) | 0 | 1,593 | 3,098 | 2,908 | 1,331 |
| Power Service | 1,350 | (133) | 0 | 1,217 | 1,328 | (63) | 0 | 1,265 | 2,678 | 2,482 | 1,361 |
| Industrial Turbines | 592 | (16) | (366) | 210 | 676 | (16) | (450) | 210 | 1,268 | 420 | 210 |
| **Power** | **5,812** | **(435)** | **(366)** | **5,011** | **5,089** | **(156)** | **(450)** | **4,483** | **10,901** | **9,494** | **4,113** |
| T&D | 1,778 | (78) | (65) | 1,635 | 1,827 | (38) | 0 | 1,789 | 3,605 | 3,424 | 1,562 |
| Transport | 2,339 | (101) | 0 | 2,238 | 2,733 | (51) | 0 | 2,682 | 5,072 | 4,920 | 2,297 |
| Marine | 725 | 0 | 0 | 725 | 843 | 0 | 0 | 843 | 1,568 | 1,568 | 822 |
| Corporate and other | 115 | (1) | (26) | 88 | 90 | (1) | 0 | 89 | 205 | 177 | 60 |
| **SALES** | **10,769** | **(615)** | **(457)** | **9,697** | **10,582** | **(246)** | **(450)** | **9,886** | **21,351** | **19,583** | **8,854** |
| Power | | | | | | | | | | | |
| Turbo-systems | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | (1,399) | (1,306) | (127) |
| Power Environment | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | 224 | 213 | 24 |
| Power Service | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | 403 | 380 | 196 |
| Industrial Turbines | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | 82 | 28 | 14 |
| **Power** | **270** | **(31)** | **2** | **241** | **(960)** | **88** | **(54)** | **(926)** | **(690)** | **(685)** | **107** |
| T&D | 110 | (3) | (9) | 98 | 117 | (1) | 0 | 116 | 227 | 214 | 84 |
| Transport | 90 | (5) | 0 | 85 | (114) | 19 | 0 | (95) | (24) | (10) | (37) |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Marine | 16 | 0 | 0 | 16 | 8 | 0 | 0 | 8 | 24 | 24 | 4 |
| Corporate and other | 56 | (1) | 0 | 55 | (100) | (1) | 0 | (101) | (44) | (46) | (26) |
| **OPERATING INCOME** | **542** | **(40)** | **(7)** | **495** | **(1,049)** | **105** | **(54)** | **(998)** | **(507)** | **(503)** | **132** |

A significant part of our sales and expenditures are realised and incurred in currencies other than the Euro. The principal currencies to which we had significant exposures in fiscal year 2004 were the US Dollar, British Pound, Swiss Franc, Mexican Peso and Brazilian Real. Our orders received and sales have been impacted by the translation of our accounts into Euros resulting from changes in value of the Euro against other currencies in fiscal year 2004. The impact was a decrease of approximately 6 % compared with first half of fiscal year 2003.

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**Proforma figures**

The figures presented in this section include financial measures and performance indicators presented on a proforma basis. Proforma figures have been adjusted to reflect the effect of the disposals of the T&D Sector, excluding the Power Conversion business, and our Industrial Turbines activities. For the derivation of pro-forma sales, operating income and operating margin, see our Pro-forma Consolidated Financial Statements year ended 31 March 2003 and half-year ended 30 September 2003 for more details. We derived order backlog and orders received in an analogous manner.

**KEY GEOGRAPHICAL FIGURES FOR FIRST AND SECOND HALF OF FISCAL YEAR 2003 AND FIRST HALF OF FISCAL YEAR 2004**

**Geographical analysis of orders**

The table below sets out, on an actual basis, the geographic breakdown of orders received by region of destination.

| | **Actual Figures** | | | | | | **Proforma Figures** | |
|---|---|---|---|---|---|---|---|---|
| **Total Group** | **First Half Sept. 02 (Unaudited)** | **% contrib.** | **2nd Half March 03 (Unaudited)** | **% contrib.** | **First Half Sept. 03 (Unaudited)** | **% contrib.** | **First Half Sept. 03 (Unaudited)** | **% contrib.** |
| | | | | **(in € million)** | | | | |
| Europe | 5,180 | 49% | 3,709 | 43% | **3,819** | 51% | **2,818** | 51% |
| North America | 2,138 | 20% | 2,466 | 29% | **1,034** | 14% | **869** | 16% |
| South and Central America | 603 | 6% | 395 | 5% | **314** | 4% | **244** | 4% |
| Asia / Pacific | 1,638 | 16% | 1,079 | 13% | **1,193** | 16% | **849** | 15% |
| Middle East / Africa | 978 | 9% | 937 | 11% | **1,079** | 15% | **761** | 14% |
| **Orders received by destination** | **10,537** | 100% | **8,586** | 100% | **7,439** | 100% | **5,541** | 100% |

For the first half of fiscal year 2004, the geographic breakdown showed a decrease of the North America s contribution as compared with the first half of fiscal year 2003. For other regions the breakdown was broadly equivalent. The decrease in North America was mainly due to the decrease in orders received by Transport, which were at exceptionally high levels last year, due to over-capacity in the power generation market and to the fall of the US dollar against the Euro.

Europe remained the largest market in terms of orders received representing 51% of the total. This region remained important for Transport as well as for Power Environment.

Activity in South and Central America remained low and markets were depressed in Brazil for Power Environment and Power Service.

The Asia / Pacific region remained stable, at 16% of the total. The level of orders received during the first half of fiscal year 2004 was lower as compared with last year although we believe the prospects for the future are positive.

The share of Middle East/Africa in orders received increased from 9% in the first half of fiscal year 2003 and 11% in the second half of fiscal year 2003, up to 15% in first half of fiscal year 2004, as a result of orders received by our Power Turbo-Systems Sector in Algeria and Bahrain.

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**Geographical analysis of sales by region of destination**

The table below sets out, on an actual basis, the geographical breakdown of sales by region of destination.

| | Actual Figures | | | | | | Proforma Figures | |
|---|---|---|---|---|---|---|---|---|
| **Total Group** | **First Half Sept. 02 (unaudited)** | **% contrib.** | **2nd Half March 03 (unaudited)** | **% contrib.** | **First Half Sept. 03 (unaudited)** | **% contrib.** | **First Half Sept. 03 (unaudited)** | **% contrib.** |
| | | | | **(in  million)** | | | | |
| Europe | 4,303 | 40% | 4,917 | 46% | **4,161** | 47% | **3,437** | 47% |
| North America | 2,673 | 25% | 2,046 | 19% | **1,662** | 19% | **1,435** | 20% |
| South and Central America | 775 | 7% | 759 | 7% | **488** | 6% | **410** | 6% |
| Asia / Pacific | 1,833 | 17% | 1,894 | 18% | **1,875** | 21% | **1,572** | 22% |
| Middle East / Africa | 1,185 | 11% | 967 | 9% | **668** | 8% | **454** | 6% |
| **Sales by destination** | **10,769** | 100% | **10,583** | 100% | **8,854** | 100% | **7,308** | 100% |

Although the level of sales in Europe decreased in actual terms, Europe s share of total sales increased from 40% in the first half of last fiscal year to 46% in the first half of fiscal year 2004. This is the result of the significant decrease in sales in other areas such as North America and South and Central America.

North America decreased mainly as a result of the low level of sales in the field of power generation, reflecting the evolution of this market.

Asia/Pacific remained stable in absolute terms at about 1.9 billion, and its share of total sales increased as major Power plant deliveries were achieved in South East Asia.

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**POWER SECTORS**

The following table sets out some key financial and operating data for the former Power Sector:

| Power Actual figures | First Half Sept. 02 (Unaudited) | 2nd Half March 03 (Unaudited) | Full Year 2002/03 | First Half Sept. 03 (Unaudited) | % Variation Sept. 03/ Sept 02 | % Variation Sept. 03/ March 03 |
|---|---|---|---|---|---|---|
| | | | (in € million) | | | |
| Order backlog | 13,599 | 11,386 | 11,386 | **9,339** | (31%) | (18%) |
| Orders received | 5,031 | 3,572 | 8,603 | **3,569** | (29%) | (0%) |
| Sales | 5,812 | 5,089 | 10,901 | **4,113** | (29%) | (19%) |
| Operating income | 270 | (960) | (690) | **107** | | |
| Operating margin | 4.6% | (18.9%) | (6.3%) | **2.6%** | | |
| EBIT | 133 | (1,196) | (1,063) | **(118)** | | |
| Capital Employed | 3,529 | 2,383 | 2,383 | **1,679** | | |
| ROCE | 7.5% | n/a | n/a | **n/a** | | |

| Power Comparable figures | First Half Sept. 02 (Unaudited) | 2nd Half March 03 (Unaudited) | Full Year 2002/03 (Unaudited) | First Half Sept. 03 (Unaudited) | % Variation Sept. 03/ Sept 02 | % Variation Sept. 03/ March 03 |
|---|---|---|---|---|---|---|
| | | | (in € million) | | | |
| Order backlog | n/a | 9,864 | 9,864 | **9,339** | n/a | (5%) |
| Orders received | 4,531 | 3,055 | 7,586 | **3,569** | (21%) | 17% |
| Sales | 5,011 | 4,483 | 9,494 | **4,113** | (18%) | (8%) |
| Operating income | 241 | (926) | (685) | **107** | | |
| Operating margin | 4.8% | (20.7%) | (7.2%) | **2.6%** | | |

| Power Proforma figures(1) | First Half Sept. 02 (Unaudited) | 2nd Half March 03 (Unaudited) | Full Year 2002/03 | First Half Sept. 03 (Unaudited) | % Variation Sept. 03/ Sept 02 | % Variation Sept. 03/ March 03 |
|---|---|---|---|---|---|---|
| | | | (in € million) | | | |
| Order backlog | n/a | 10,101 | 10,101 | **9,339** | n/a | (8%) |
| Orders received | 4,523 | 2,815 | 7,338 | **3,249** | (28%) | 15% |
| Sales | 5,220 | 4,413 | 9,633 | **3,903** | (25%) | (12%) |
| Operating income | n/a | n/a | (772) | **93** | | |

| | | | | |
|---|---|---|---|---|
| Operating margin | n/a | n/a | (8.0%) | **2.4%** |

(1) Proforma figures excluding Industrial Turbines businesses.

The Power Sector was reorganised into three new Sectors following the end of fiscal year 2003. The figures shown above and discussed below reflect this new organisation. However, due to the reorganisations, and to intra-segments/inter-segments transactions, the figures reported for fiscal year 2003 cover only full year operating income with no split of operating income by semester.

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**POWER TURBO-SYSTEMS**

The following table sets out some key financial and operating data for the Power Turbo-systems Sector:

| **Power Turbo-Systems**<br><br>**Actual figures** | **First Half Sept. 02**<br><br>**(Unaudited)** | **2nd Half March 03**<br><br>**(Unaudited)** | **Full Year 2002/03** | **First Half Sept. 03**<br><br>**(Unaudited)** | **% Variation Sept. 03/**<br><br>**Sept 02** | **% Variation Sept. 03/**<br><br>**March 03** |
|---|---|---|---|---|---|---|
| | | | **(in  million)** | | | |
| Order backlog | n/a | 3,445 | 3,445 | **3,027** | n/a | (12%) |
| Orders received | 1,368 | 453 | 1,821 | **839** | (39%) | 85% |
| Sales | 2,413 | 1,444 | 3,857 | **1,211** | (50%) | (16%) |
| Operating income | n/a | n/a | (1,399) | **(127)** | | |
| Operating margin | n/a | n/a | (36.3%) | **(10.5%)** | | |
| EBIT | n/a | n/a | (1,527) | **(219)** | | |
| Capital Employed | n/a | n/a | n/a | **(1,466)** | | |
| ROCE | n/a | n/a | n/a | **n/a** | | |

| **Power Turbo-Systems**<br><br>**Comparable figures** | **First Half Sept. 02**<br><br>**(Unaudited)** | **2nd Half March 03**<br><br>**(Unaudited)** | **Full Year 2002/03**<br><br>**(Unaudited)** | **First Half Sept. 03**<br><br>**(Unaudited)** | **% Variation Sept. 03/**<br><br>**Sept 02** | **% Variation Sept. 03/**<br><br>**March 03** |
|---|---|---|---|---|---|---|
| | | | **(in  million)** | | | |
| Order backlog | n/a | 3,392 | 3,392 | **3,027** | n/a | (11%) |
| Orders received | 1,303 | 444 | 1,747 | **839** | (36%) | 89% |
| Sales | 2,269 | 1,415 | 3,684 | **1,211** | (47%) | (14%) |
| Operating income | n/a | n/a | (1,306) | **(127)** | | |
| Operating margin | n/a | n/a | (35.5%) | **(10.5%)** | | |

**Orders received**

The first half of fiscal year 2004 saw a continued downward trend in the power generation market due to a decline in US activity and a slowdown in other parts of the world, except for China. The uncertain global economic climate led to delayed decisions about new capital investments. Overall, North America experienced over-capacity and the new market forces shifted the focus away from favouring merchant power plants to regulated businesses (utilities). In Europe certain markets still show demand such as in Spain,

Italy and the northern countries; however sluggish economies may impact the progress of deregulation and unbundling in the power generation and transmission market. The regional demand in the Middle East remained sustained. Asia was much better oriented and economic growth is coming back after the crisis of the late 1990 s. China continued to develop a very large equipment ordering programme to meet with strong electricity demand but most of this is met by local suppliers.

The increased price volatility for fuel and electricity emanating from the liberalisation of markets re-emphasised the need for flexibility and diversity of power generation technologies.

On an actual basis, orders received by Turbo-Systems for the first half of fiscal year 2004 were 85% higher than the second half of fiscal year 2003, but 39% lower than for the first half of fiscal year 2003, reflecting the overall market environment described above.

During the first half of fiscal year 2004, Power Turbo-Systems booked the following major orders:

F Kirina, an open cycle plant in Algeria (2x GT13 E2 gas turbines);

Alba P4, a combined cycle plant (2x GT 13 E2) for Aluminium Bahrain; and

Several Steam turbine retrofit orders, both in Europe and in the US.

By geography, compared to the second half of fiscal year 2003, orders received significantly decreased by 20% in Europe, while North America dropped by 58%. Steam turbine retrofits remained active, essentially for

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nuclear plants. South America was extremely depressed with a limited expected level of new infrastructure investments in the near future. Asia is still an important market, but no significant project materialised during the first half of fiscal year 2004. The most active region was Middle East, with a total amount of orders received for the 6 month period already higher than the full fiscal year 2003.

**Sales**

Sales by Power Turbo-Systems in the first half of fiscal year 2004 decreased by 50% compared with the first half of fiscal year 2003, on an actual basis, and by 47% on a comparable basis. This is mainly due to very high level achieved during the first half of last year, as a continuation of the exceptional level of orders received in the prior years. The lower level of orders received in the fiscal years 2002 and 2003, have had a significant negative impact on the current year s sales.

On a actual basis, sales for Power Turbo-Systems in the first half of fiscal year 2004 decreased by 16% compared with the second half of fiscal year 2003. The effect of the decline in orders started to materialise in the second half of last year, in particular for the sale of turbines to power plants.

By geography, compared to the second half of fiscal year 2003, North America decreased by 35%, Europe decreased by 22%, while Asia/Pacific increased by 51%. This is due to the high volumes traded on Power plant contracts, particularly in Malaysia, Vietnam and Singapore.

**Operating income and operating margin**

Power Turbo-Systems operating income was (127) million in the first half of fiscal year 2004 compared with (1,399) million in the full fiscal year 2003 on an actual basis. The main reasons for negative operating income in the first half of fiscal year 2004 were the low level of sales recognised in the period and a charge of 22 million, as certain anticipated achievements in our mitigation plan for the GT24/GT26 did not materialise.

Operating income in fiscal year 2003 was strongly impacted by the negative effects of the GT24/GT26 gas turbines problems and the related exceptional provisions and accrued contract costs, and by a sharp decrease in sales as compared with fiscal year 2002.

**Update on GT24/GT26 Gas Turbine Issues**

GT24 and GT26 gas turbines, with outputs of 180 MW and 260 MW, respectively, are the largest of our extensive range of gas turbines. The technology was originally developed by ABB in the mid-1990s, with most sales made prior to the acquisition by ALSTOM. These turbines are based on an advanced design concept. At the start of the commercial operation of the second generation, or B version turbines, in 1999 and 2000, a number of technical issues were identified, showing the turbines would not meet the contractual performance and lifetime obligations.

In response, we set in motion high-priority initiatives to design and implement modifications across the fleet. The first step of these initiatives was to de-rate the units so that they could operate in commercial service with lower efficiency and output, while we developed the technical solutions to allow full rating operation. We also embarked on a comprehensive programme to discuss and resolve any contractual issues with customers. Commercial settlements with customers were negotiated to deal with the consequences of the de-rating. Typically, what was proposed was a Performance Recovery Period of around 2-3 years, prior to implementing the life-time and performance upgrades, that we call a recovery package . This deferred the timing of the date at which provisional acceptance was achieved and related contractual remedies, including liquidated damages, applied. During that period, varying solutions were applied depending on the situation, however in general we replaced short life components at our cost and agreed on contractual amendments, including revised financial conditions, with each customer.

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We have implemented several technical improvements to the turbines, which permit flexible and reliable operation of the fleet. The cumulative plant reliability since start of commercial operation is now 97% for the GT24/GT26 fleet. Operational reliability and flexibility are important ingredients for our customers, particularly for those in merchant markets.

Our confidence in the technology is being reinforced by the major progress achieved, as modifications aimed at delivering enhancements to output and efficiency have been designed, validated, tested and are being implemented as follows:

Compressor mass flow and efficiency increase for GT26 Successful demonstration of increased electrical output improvement at our full-scale test facility in Birr, Switzerland. Compressor mass flow and efficiency increase for GT24 successfully tested at a power plant in Mexico. Improved, validated and tested compressor upgrades have been installed on existing sites in USA, Spain and Ireland, and are being included in new applications. The fleet lead unit, with the new compressor, has now been in operation for more than 4,000 hours.

High fogging Inlet System Successful demonstration of an increase of more than 6% in electrical output in both the test facility and field validation units. The system can be applied to both existing and new gas turbine installations.

Dual Fuel Capability Successful demonstration in both the test facility and field validation units. The system is now available for commercial application on both existing and new gas installations.

Life-time package 5 engines have been fitted with the blade improvement package, and after 2,300 hours of operation the inspection shows a fully satisfactory behaviour.

The 72 machines in service had accumulated over 730,000 operating hours at high reliability levels as of 30 September 2003.

The commercial situation with respect to the GT24/GT26 gas turbines is also becoming clearer. Of the 80 units, 72 units are in commercial operation, 2 are in commissioning, 2 are in construction and for 4 the contract has been suspended. Commercial settlement is progressing well with several additional agreements concluded (68 settlements agreed or not needed as at 13 November 2003), and all of the 7 litigation cases have now been settled satisfactorily. Under agreements covering 31 of the units, we are committed to or otherwise have the opportunity to make upgrade improvements within agreed time periods. The remaining units, which are in commercial operation, are either in normal warranty or have had those warranty periods expire. The order backlog still includes 498 million, in respect of a GT26 contract for 4 units currently suspended on which the owner has an option for termination. If this contract does not proceed, the orders in hand will need to be adjusted accordingly.

In the fourth quarter of fiscal year 2003 unexpected setbacks and delays, now resolved, were experienced in validating and testing several important components of the recovery package, notably the compressor upgrade and full lifetime blades. These delays resulted in our being unable to implement certain scheduled performance recovery measures during the recovery periods agreed with certain of our customers.

In the current state of the energy wholesale markets, customers do not have the incentive to accept these machines. These delays therefore mean significantly increased exposure as customers are less inclined to agree to further extensions of the recovery periods and are invoking penalties and liquidated damages. We also incur additional costs because we have been forced to shut down the machines more frequently to replace short life components at our expense. Our previously expected targets were

therefore not achievable in the current context.

In fiscal year 2000, ABB ALSTOM Power, of which we owned 50% at that time, recorded a total of €519 million of provisions and accrued contract costs in respect of the GT24/GT26 gas turbines. In fiscal year 2001, we recorded a total of €1,068 million of provisions and accrued contract costs related to the turbines and retained

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provisions and accrued contract costs of €1,530 million at 31 March 2001. In fiscal year 2002, we recorded an additional €1,075 million of provisions and accrued contract costs related to the turbines and retained provisions and accrued contract costs of €1,489 million at 31 March 2002, including a €49 million provision in respect of an option exercised on a contract after the bulk of the GT24/GT26 portfolio was sold. We recorded an additional €1,637 million of provisions and accrued contract costs related to these turbines in fiscal year 2003, including €83 million recorded in fiscal year 2003 in the Customer Service Segment in respect of contracts transferred to this Segment as part of our after market operations and on which we have no uncovered exposure. We therefore retained €1,655 million of provisions and accrued contract costs at 31 March 2003 in respect of these turbines after taking into account mitigation plans of €454 million.

As of 30 September 2003, the mitigation target has been reduced by €118 million to €336 million. This reduction included €22 million related to exchange rate movements, €68 million of achieved mitigation actions and certain planned mitigation actions which did not materialise resulting in a corresponding €28 million charge in our operating income for the first half of fiscal year 2004 (€22 million for Power Turbo-Systems and €6 million for Power Service). As of 30 September 2003, we retained €1,193 million of provisions and accrued contract costs. This amount does not include €336 million of exposure, which we consider the risks mitigated by appropriate action plans.

**POWER ENVIRONMENT**

The following table sets out some key financial and operating data for the Power Environment Sector:

| **Power Environment Actual figures** | **First Half Sept. 02 (Unaudited)** | **2nd Half March 03 (Unaudited)** | **Full Year 2002/03** | **First Half Sept. 03 (Unaudited)** | **% Variation Sept. 03/ Sept 02** | **% Variation Sept. 03/ March 03** |
|---|---|---|---|---|---|---|
| | | | **(in € million)** | | | |
| Order backlog | n/a | 3,863 | 3,863 | **3,452** | n/a | (11%) |
| Orders received | 1,469 | 1,114 | 2,583 | **1,042** | (29%) | (6%) |
| Sales | 1,457 | 1,641 | 3,098 | **1,331** | (9%) | (19%) |
| Operating income | n/a | n/a | 224 | **24** | | |
| Operating margin | n/a | n/a | 7.2% | **1.8%** | | |
| EBIT | n/a | n/a | 107 | **(29)** | | |
| Capital Employed | n/a | n/a | n/a | **850** | | |
| ROCE | n/a | n/a | n/a | **n/a** | | |

| **Power Environment Comparable figures** | **First Half Sept. 02 (Unaudited)** | **2nd Half March 03 (Unaudited)** | **Full Year 2002/03 (Unaudited)** | **First Half Sept. 03 (Unaudited)** | **% Variation Sept. 03/ Sept 02** | **% Variation Sept. 03/ March 03** |
|---|---|---|---|---|---|---|
| | | | **(in € million)** | | | |
| Order backlog | n/a | 3,821 | 3,821 | **3,452** | n/a | (10%) |
| | 1,353 | 1,100 | 2,453 | **1,042** | (23%) | (5%) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Orders received | | | | | | |
| Sales | 1,315 | 1,593 | 2,908 | **1,331** | 1% | (16%) |
| Operating income | n/a | n/a | 213 | **24** | | |
| Operating margin | n/a | n/a | 7.3% | **1.8%** | | |

**Orders received**

Fiscal year 2003 saw an abrupt market downturn in the US particularly in the combined cycle market following a boom during the prior two years. The first half of this year has shown a continuation of that trend. Latin America suffered from economic difficulties last year leading to a drop in the number of projects being built. The Brazilian market in particular was very weak, severely impacting the Hydro business. In Europe, the market remained active in some areas, in particular Germany for Waste to Energy contracts and Italy for Heat Recovery Steam Generators. In Asia, China continued to develop its capacity of electricity generation, with some awards in Hydro; however a large numbers of projects were awarded to local suppliers.

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The increased price volatility for fuel and electricity emanating from the liberalisation of markets re-emphasised the need for flexibility and diversity of power generation technologies. Environmental policies are increasingly being integrated into market requirements favouring our environmental control equipment.

Orders received by Power Environment in the first half of fiscal year 2004 were lower than in the first half of 2003, due to the slow down in the markets across all businesses that commenced during the second half of last year. In the first half of fiscal year 2003, large contracts were booked in Utility Boilers (Santee Cooper) & Hydro (Victoria Falls).

On an actual basis, orders received by Power Environment for the first half of fiscal year 2004 decreased by 6% as compared with the second half of fiscal year 2003, and 29% as compared with the first half of fiscal year 2003.

During the first half of fiscal year 2004, Power Environment booked the following major orders:

- In Germany, a combined heat and power plant in Sandreuth, two waste incineration boilers in Muenster, new firing systems for lignite-fired boilers in Schkopau; and

- In China, a circulating fluidised bed (CFB ) boiler in Baima, Sichuan Province.

By geography, orders were strongest in Europe this year. The strongest market has been Germany, primarily the Waste to Energy market, but we also booked orders in Italy and France. Some smaller orders were booked in China and India, and our prospects in Asia remain positive overall. Activity in North and South America continued to be low.

**Sales**

Sales of Power Environment in the first half of fiscal year 2004 fell 9% compared with the first half of fiscal year 2003, on an actual basis, and increased slightly on a comparable basis. Hydro Business sales were higher compared to first half of last year due to a large order booked in the second half of last year. Utility Boiler sales are significantly lower than first half last year due to low bookings in the second half of last year.

**Operating income and operating margin**

The operating income of Power Environment was €24 million for the first half of fiscal year 2004, compared with €224 million for the full fiscal year 2003. This low level included a charge of €60 million related to the revised cost of completion of a utility boiler contract in the US due to the bankruptcy of two key subcontractors.

**POWER SERVICE**

The following table sets forth some key financial and operating data for the Power Service Sector:

| Power Service<br>Actual figures | First Half Sept. 02 (Unaudited) | 2nd Half March 03 (Unaudited) | Full Year 2002/03 | First Half Sept. 03 (Unaudited) | % Variation Sept. 03/ Sept 02 | % Variation Sept. 03/ March 03 |
|---|---|---|---|---|---|---|
| | | | (in  million) | | | |
| Order backlog | n/a | 2,793 | 2,793 | **2,860** | n/a | 2% |
| Orders received | 1,686 | 1,248 | 2,934 | **1,368** | (19%) | 10% |
| Sales | 1,350 | 1,328 | 2,678 | **1,361** | 1% | 2% |
| Operating income | n/a | n/a | 403 | **196** | | |
| Operating margin | n/a | n/a | 15.0% | **14.4%** | | |
| EBIT | n/a | n/a | 304 | **123** | | |
| Capital Employed | n/a | n/a | n/a | **2,295** | | |
| ROCE | n/a | n/a | n/a | **10.7%** | | |

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| Power Service<br><br>Comparable figures | First Half Sept. 02<br><br>(Unaudited) | 2nd Half March 03<br><br>(Unaudited) | Full Year 2002/03<br><br>(Unaudited) | First Half Sept. 03<br><br>(Unaudited) | % Variation Sept. 03/<br>Sept 02 | % Variation Sept. 03/<br>March 03 |
|---|---|---|---|---|---|---|
| | | | (in  million) | | | |
| Order backlog | n/a | 2,651 | 2,651 | **2,860** | n/a | 8% |
| Orders received | 1,555 | 1,191 | 2,746 | **1,368** | (12%) | 15% |
| Sales | 1,217 | 1,265 | 2,482 | **1,361** | 12% | 8% |
| Operating income | n/a | n/a | 380 | **196** | | |
| Operating margin | n/a | n/a | 15.3% | **14.4%** | | |

**Orders received**

Fiscal year 2003 saw a continuation of trends already emerging in the last financial year in the service market for gas fired and combined cycle plants. Clients generally were more cost driven and continued to lower their maintenance budgets. Many markets showed impacts of generation over-capacity and high fuel prices leading to less operating hours and deferred spending, thus lowering the potential service business. Despite these difficult circumstances, the business maintained a good workload with regular service work and the development of the sale of service packages and system solutions in addition to parts and repair projects.

The increased price volatility for fuel and electricity following the liberalisation of markets has re-emphasised the need for flexibility and diversity of power generation technologies and environmental policies are increasingly being integrated into market requirements. These developments favour our upgrade solutions for existing equipment.

Complete power plant management solutions are mainly sold for new plants and are therefore directly affected by the market success of new gas fired and combined cycle plants sold by the Power Turbo-Systems Sector.

On a regional basis orders were strong in the US supported by the booking of several time and material contracts and our large installed base of coal fired plants, which have been running at high capacity.

Capacity increase projects in Italy, mainly conversions from Steam to combined cycle power plants, are ongoing. In Spain, new Combined Cycle Gas Turbines will continue to come online in 2003, offering some opportunities for the near future. The German market remained stable while the Eastern European markets were and continue to be slow. In Asia several long term service agreements were signed.

On a comparable basis, orders received for the first half of fiscal year 2004 were 15% higher than the second half of fiscal year 2003, but 12% lower than for the first half of fiscal year 2003. The decrease in orders received compared with the strong first half of fiscal year 2003 was mainly due to the delay in several larger Operation & Maintenance orders.

During the first half of fiscal year 2004, Power Service booked the following major orders:

- In the US, an order for a Hot Gas Protection Plant for a GT24 Combined Cycle Plant for La Paloma and an order for a GT11N inspection in Camabalanche;

- In Fortaleza, Brazil, an O&M order for a GT11N2 Power plant for CGTF; and

- In Olkiluoto, Finland, a modernisation and design contract for new reheaters/moisture separators and High Pressure Turbine for a power plant.

By geography, on an actual basis, orders received decreased by 9% in Europe, essentially due to a decrease in France and UK to some extent compensated by a slight increase in Germany. North America increased by 20%, due to a strong US general construction business and high service volumes on our large installed fleet of coal plants. South America was low during this year while prospects in Asia remain good although volumes have been somewhat below last years level.

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**Sales**

Sales booked by Power Service in the first half of fiscal year 2004 were stable as compared with the first half of fiscal year 2003, on an actual basis, and increased 12% on a comparable basis. This is mainly due to a healthy level of sales in the US supported by a strong opening backlog of Time & Material work for environmental contracts and increased sales on O&M contracts as more contracts were starting their operation phase this year.

On a comparable basis, sales for the first half of fiscal year 2004 increased by 8% for the Power Service Sector compared with the second half of fiscal year 2003. This increase was due to several reasons including slightly increasing construction sales in the US and a strong increase in Spain and Columbia supported by higher sales on O&M contracts.

**Operating income and operating margin**

Power Service operating income was 196 million or 14.4% of sales in the first half of fiscal year 2004 compared with 403 million or 15.0% of sales for the full fiscal year 2003. This slight decrease resulted from the integration within the Power Service Sector of two loss making activities transferred from the former Industrial Segment, to negative settlements on two old contracts, and to a charge of 6 million given that certain anticipated achievements in our mitigation plan for the GT24/GT26 relating to Power Service did not materialise.

**INDUSTRIAL TURBINES**

The following table sets out some key financial and operating data for our Industrial Turbines businesses:

| **Industrial Turbines Actual figures** | **First Half Sept. 02 (Unaudited)** | **2nd Half March 03 (Unaudited)** | **Full Year 2002/03** | **First Half Sept. 03 (Unaudited)** | **% Variation Sept. 03/ Sept 02** | **% Variation Sept. 03/ March 03** |
|---|---|---|---|---|---|---|
| | | | **(in  million)** | | | |
| Order backlog | n/a | 1,285 | 1,285 | **0** | n/a | (100%) |
| Orders received | 508 | 757 | 1,265 | **320** | (37%) | (58%) |
| Sales | 592 | 676 | 1,268 | **210** | (65%) | (69%) |
| Operating income | n/a | n/a | 82 | **14** | | |
| Operating margin | n/a | n/a | 6.5% | **6.7%** | | |
| EBIT | n/a | n/a | 53 | **7** | | |

Our Industrial Turbines businesses were sold to Siemens in the first half of fiscal year 2004 pursuant to two transactions: our small gas turbines business with effect from 30 April 2003 and our medium-sized gas turbines and industrial steam turbines businesses with effect from 1 August 2003. Certain minor sites have yet to be transferred to the buyer pending completion of legal procedures relating, for example, to competition regulations.

The scope of the businesses which we have sold is a sum of several management units, assets and investments for which it is very complex to reconstruct historical data for the first month of last year, for our small gas turbines business, and for the first four months of last year, for our medium-sized gas turbines and industrial steam turbines businesses. For the presentation of ALSTOM s comparable consolidated figures for fiscal year 2003, we have taken the same data as for fiscal year 2004.

**TRANSMISSION & DISTRIBUTION (T&D)**

Our T&D Sector has been sold to Areva, excluding our Power Conversion business, with a completion of the transaction forecasted for the beginning of January 2004.

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The following table sets out some key financial and operating data for our T&D Sector:

| **T&D**<br>**Actual figures** | **First Half Sept. 02 (Unaudited)** | **2nd Half March 03 (Unaudited)** | **Full Year 2002/03** | **First Half Sept. 03 (Unaudited)** | **% Variation Sept. 03/ Sept 02** | **% Variation Sept. 03/ March 03** |
|---|---|---|---|---|---|---|
| | | | | **(in € million)** | | |
| Order backlog | 2,960 | 2,694 | 2,694 | **2,894** | (2%) | 7% |
| Orders received | 2,067 | 1,664 | 3,731 | **1,801** | (13%) | 8% |
| Sales | 1,778 | 1,827 | 3,605 | **1,562** | (12%) | (15%) |
| Operating income | 110 | 117 | 227 | **84** | | |
| Operating margin | 6.2% | 6.4% | 6.3% | **5.4%** | | |
| EBIT | 61 | 20 | 81 | **6** | | |
| Capital Employed | 1,028 | 963 | 963 | **1,008** | | |
| ROCE | 11.9% | 4.2% | 8.4% | **1.2%** | | |

| **T&D**<br>**Comparable figures** | **First Half Sept. 02 (Unaudited)** | **2nd Half March 03 (Unaudited)** | **Full Year 2002/03 (Unaudited)** | **First Half Sept. 03 (Unaudited)** | **% Variation Sept. 03/ Sept 02** | **% Variation Sept. 03/ March 03** |
|---|---|---|---|---|---|---|
| | | | | **(in € million)** | | |
| Order backlog | 2,848 | 2,623 | 2,623 | **2,894** | 2% | 10% |
| Orders received | 1,904 | 1,620 | 3,524 | **1,801** | (5%) | 11% |
| Sales | 1,635 | 1,789 | 3,424 | **1,562** | (4%) | (13%) |
| Operating income | 98 | 116 | 214 | **84** | | |
| Operating margin | 6.0% | 6.5% | 6.3% | **5.4%** | | |

**Orders received**

Over the first half of fiscal year 2004, the transmission and distribution market stabilised after the previous years weak evolution, however at a relatively low level. This was due to macro-economic uncertainty following the Iraq war and political instability in South America. By region, Europe remained weak, especially in the industrial market. North America started to show first signs of recovery. Asia, especially China, continued to show strong growth despite SARS epidemic. India shows also positive perspectives for the coming period following the implementation of a new regulatory framework.

Orders received by T&D in the first half of fiscal year 2004 decreased by 13% compared with the first half of fiscal year 2003, mainly due to exchange rate variations and the impact of the disposal of our activities in South Africa in September 2002. On a comparable basis, the decrease was 5%. The level of orders received has decreased by 14% in Europe, particularly in Germany and the UK. This was partly offset by an increased order intake in Scandinavia and Russia. With total orders of € 791 million in the first half of fiscal year 2004, Europe remained the largest contributor to T&D activity (44% of T&D orders received).

Order intake in the Americas almost halved as compared to the first half of fiscal year 2003, as a result of the negative exchange rate impact and the lack of large orders received, in South America. In the US, there was a decrease in the activity of both Power Conversion and Energy Management Market Businesses.

The African/Middle Eastern market was lower than last year, with a 9% decrease in the level of orders received. This evolution was due to the phasing of large orders that are expected in the second half of the fiscal year. This area remains a growing market for T&D, with large projects being won in the Transmission Projects Business.

T&D s orders in Asia increased by 25% due to a high level of activity in China. The main contributor to this increase was Power Conversion, which booked several large projects in this region.

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**Sales**

T&D sales amounted to 1,562 million in the first half of fiscal year 2004, a decrease of 12% compared with the first half of fiscal year 2003. On a comparable basis, the decrease was limited to 4%.

Sales decreased particularly in the Middle East/Africa, notably due to the disposal of South African activities. This decrease was partially offset by sales in Algeria and Bahrain, where the trading of significant contracts started.

T&D s trading activity in Europe remained stable. This is principally due to the volume of system orders won at the beginning of fiscal year 2003 in Eastern Europe, where the projects won in Kazakhstan and Romania last year started to be traded.

Sales in the Americas dropped 28%. Sales in the Asian market decreased slightly, while the level of trading in China continued to increase mainly in the High Voltage Products business.

**Operating income and operating margin**

T&D operating income amounted to 84 million in first half of fiscal year 2004, compared with 110 million in the first half of fiscal year 2003 on an actual basis, or 98 million on a comparable basis. The operating margin was 5.4% in the first half of fiscal year 2004 as compared with 6.2% in the first half of fiscal year 2003. T&D s operating margin was impacted by the low level of sales recorded in the first half of the year in both product and system activities. Despite the improvement in productivity in most of the businesses, as a result of the standardisation programme launched in medium voltage and power transformer activities and to the rationalisation of the production platform launched in Europe, the gross margin and the operating income declined.

**TRANSPORT**

The following table sets out some key financial and operating data for the Transport Sector:

| **Transport** | **First Half Sept. 02** | **2nd Half March 03** | **Full Year** | **First Half Sept. 03** | **% Variation Sept. 03/** | **% Variation Sept. 03/** |
|---|---|---|---|---|---|---|
| **Actual figures** | **(Unaudited)** | **(Unaudited)** | **2002/03** | **(Unaudited)** | **Sept 02** | **March 03** |
| | | | **(in  million)** | | | |
| Order backlog | 14,784 | 14,675 | 14,675 | **13,795** | (7%) | (6%) |
| Orders received | 3,300 | 3,112 | 6,412 | **1,672** | (49%) | (46%) |
| Sales | 2,339 | 2,733 | 5,072 | **2,297** | (2%) | (16%) |
| Operating income | 90 | (114) | (24) | **(37)** | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Operating margin | 3.8% | (4.2%) | (0.5%) | **(1.6%)** | | |
| EBIT | 43 | (156) | (113) | **(150)** | | |
| Capital Employed | 759 | 738 | 738 | **467** | | |
| ROCE | 11.3% | n/a | n/a | **n/a** | | |

| **Transport**<br>**Comparable figures** | **First Half Sept. 02**<br>**(Unaudited)** | **2nd Half March 03**<br>**(Unaudited)** | **Full Year 2002/03**<br>**(Unaudited)** | **First Half Sept. 03**<br>**(Unaudited)** | **% Variation Sept. 03/**<br>**Sept 02** | **% Variation Sept. 03/**<br>**March 03** |
|---|---|---|---|---|---|---|
| | | | **(in € million)** | | | |
| Order backlog | 14,045 | 14,435 | 14,435 | **13,795** | (2%) | (4%) |
| Orders received | 3,135 | 3,061 | 6,196 | **1,672** | (47%) | (45%) |
| Sales | 2,238 | 2,682 | 4,920 | **2,297** | 3% | (14%) |
| Operating income | 85 | (95) | (10) | **(37)** | | |
| Operating margin | 3.8% | (3.5%) | (0.2%) | **(1.6%)** | | |

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**Orders received**

During the first half of fiscal year 2004, the market remained active in Europe and Asia, which partially compensated the downturn in North America. The Tram market remained the most active, and we were awarded several contracts such as in Strasbourg, Valenciennes, and Grenoble in France, and Alicante in Spain. We believe that this market segment will remain active with additional orders in the coming months.

During the first half of the fiscal year 2004, we confirmed 2 significant Metro contracts, one being 84 new vehicles for the London Underground and the other being the supply of 168 new cars for the Yanpu line in Shanghai.

The Information Solutions segment still maintains a high level of potential, and we took advantage of our competitiveness with major orders in Chile, China, South Korea, and the Netherlands.

Several countries, such as Italy, Spain, Switzerland, UK and the Netherlands, are now expanding their high speed networks, which offer very significant business opportunities over the coming months.

The North East line in Singapore having successfully entered into service, represented a significant showcase for our automatic driver-less system capabilities world wide.

The Orders received by Transport in the first half of fiscal year 2004 amounted to €1,672 million compared with €3,135 million in the first half of fiscal year 2003, on a comparable basis. This decrease by 47% was due to lower order intake in the US where we received in fiscal year 2003 major orders and to some extent to the uncertainties pending the announcement by ALSTOM of our revised financing package. Since this announcement, we have experienced a positive response from the market illustrated by about €700 million worth of orders secured in October 2003, which we consider to be a clear sign of renewed customer confidence.

Services, which include maintenance and renovation contracts, represented 21% of the orders received for the first half of fiscal year 2004, as compared with 14% for the first half of fiscal year 2003.

As a percentage of total orders received, Asia & North America represented respectively 11% and 13% of the total orders received compared with 14% and 16% for the same period of last year. Europe continued to represent a very significant market with 72% of orders received.

The major orders received in first half of the fiscal year 2004 included:

- 28 car trainsets and 59 trailer cars for Jubilee line in London underground ;

multi-year maintenance of freight locomotives in Mexico for Ferrosur ;

35 Citadis trams in Strasbourg ;

21Citadis trams in Valenciennes ;

35 Citadis trams in Grenoble ;

168 metropolis cars for YangPu Metro Line in Shanghai ;

9 light train rails from the Spanish region of Alicante ;

55 Coradia lint regional trains for DB Regional trains ;

60 additional trains four-car class 423 for Deutsche Bahn ;

ERTMS train control for Betuweroute rail line in Netherlands ;

Signaling system for Santiago metro line 4.

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**Sales**

Sales in Transport decreased by 2% in first half of fiscal year 2004 compared with first half of fiscal year 2003, on an actual basis, and increased by 3% on a comparable basis. This was mainly due to the delivery of turnkey operations, especially in Greece (Athens suburban line), in Spain and in France (Trams Citadis), and to the maintenance and refurbishment activities located in Spain and Germany for locomotive renovation.

In first half of fiscal year 2004, Transport s sales breakdown by region was as follows: Europe 71%, the Americas 9% and Asia/Pacific 20%. Compared with the first half of fiscal year 2003, Europe increased from 62% to 71% whereas the Americas and Asia both decreased.

**Operating income and operating margin**

Project reviews led management to make revised estimates of costs to complete contracts in our Transport Sector, leading to additional charges of €102 million in relation to the US Transport business. As a consequence, operating income of Transport in the first half of fiscal year 2004 amounted to €(37) million, compared with € 90 million in the first half of fiscal year 2003 on an actual basis. Transport s operating income was €(114) million in the second half of fiscal year 2003 due to provisions recorded on the UK Trains for €140 million and on the US Trains for €73 million.

**UK Trains**

In 1997, shortly after the privatisation of the UK rail industry, we took five orders for a total of 119 new regional trains with an aggregate value of €670 million. These contracts were part of the first series of orders following the rail deregulation in the UK. At the end of March 2002, we reported that difficulties had been encountered on these UK Regional Trains contracts. As at 30 September, all 119 Regional Trains have been delivered to the respective train operating companies. Commitments made to customers in the previous fiscal year in order to close out contractual disputes are being followed. This includes extensive modification and warranty programmes at depots and the Washwood Heath manufacturing plant.

On the West Coast Main Line (WCML) contract, the project experienced major delays due to changing specifications and the high level of uncertainty regarding upgrading of the WCML route and infrastructure. The major activity relates to Pendolino High Speed Tilting Trains. At the end of September 2003, 28 of the 53 trains had been delivered, in line with the latest agreement with the operator and the Strategic Rail Authority. Trains are being used on the infrastructure operating a restricted service and for crew and driver training. The next key milestone for the project is the award of the 125 miles per hour passenger safety case and the tilting system. This is expected by the end of November 2003. We expect that all trains will be in service by September 2004.

While our dispute on the WCML contract is currently in litigation, we continue to attempt to reach a settlement with the buyer and the operator regarding such claims. The conclusion of the Regional Train contracts, the conclusion of the WCML contract expected in the near future and the lack of orders in the UK have resulted in our decision to close the new build assembly facility in Washwood Heath. An initial redundancy of 220 was announced in July 2003 and consultation is currently underway with employee representatives. A key priority is to maintain a balance between the need to reduce cost and meet our commitments on the above

programmes.

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**MARINE**

The following table sets out some key financial and operating data for our Marine Sector:

| Marine<br>Actual figures | First Half Sept. 02 (Unaudited) | 2nd Half March 03 (Unaudited) | Full Year 2002/03 | First Half Sept. 03 (Unaudited) | % Variation Sept. 03/ Sept 02 | % Variation Sept. 03/ March 03 |
|---|---|---|---|---|---|---|
| | | | (in  million) | | | |
| Order backlog | 2,229 | 1,523 | 1,523 | **1,041** | (53%) | (32%) |
| Orders received | 26 | 137 | 163 | **340** | 1208% | 148% |
| Sales | 725 | 843 | 1,568 | **822** | 13% | (2%) |
| Operating income | 16 | 8 | 24 | **4** | | |
| Operating margin | 2.2% | 0.9% | 1.5% | **0.5%** | | |
| EBIT | 15 | (3) | 12 | **(2)** | | |
| Capital employed | (220) | (343) | (343) | **(593)** | | |
| ROCE | n/a | n/a | n/a | **n/a** | | |

**Orders received**

Since 2001, Marine s main market, cruise-ship construction, has remained very weak world wide, due both to the high level of orders in the previous years (the year 2000 ended with a record orderbook of 50 ships under construction worldwide essentially in Europe) and to the uncertainties following September 2001 events. In 2001, there was only one new order worldwide (for ALSTOM), in 2002, there were only 3 new orders world wide, and in 2003, none until September 2003, when 3 new orders were booked by certain European yards. A number of observers of the cruise market see the September 2003 orders as the possible sign of an upcoming market recovery.

The LNG carrier market remained very active, but is jeopardised by the low pricing policy of the Korean yards. In June 2003, the European Commission extended to this segment the protective subsidies reserved to the market segments directly exposed to Korean detrimental prices.

Orders received by Marine during the first half of fiscal year 2004 reached 340 million comprising a trans-Channel car-ferry for Seafrance and a 153,500 $m^3$ LNG carrier- for Gaz de France.

**Sales**

Sales amounted to 822 million in the first half of fiscal year 2004. Marine completed and delivered during the first half of fiscal year 2004 the following vessels :

- the cruise-ship Island Princess to P&O Princess (now Carnival plc);
- the cruise-ship Crystal Serenity to NYK/Crystal Cruises;
- a surveillance frigate to the Royal Moroccan Navy.

**Operating income and operating margin**

Operating income was 4 million in the first half of fiscal year 2004. Marine had to bear additional costs in the completion and delivery of a cruise-ship, and accrued contingency provisions on several other contracts obtained without subsidies. Marine also had to provide for indemnification of the owners of several recently-delivered cruise-ships propelled by podded drives.

**Renaissance**

We had undertaken vendor financing in support of the recovery plan for the Marine Sector from fiscal year 1996 to fiscal year 1998, which had helped us to obtain repeat orders for cruise-ships and increased the

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productivity of the shipyard. We had provided guarantees to financial institutions relating to indebtedness incurred by certain purchasers of our cruise-ships and fast ferries. As at 30 September 2003, the remaining guarantees related to a total of fourteen ships, including six cruise-ships delivered to Renaissance Cruises ( Renaissance ) and eight ships for four other customers. In addition, two other cruise-ships had been supplied to Renaissance without vendor financing.

Renaissance filed for bankruptcy in September 2001. Thereafter, we and the lenders undertook actions to secure and maintain the ships and to restructure their financing. Our overall exposure to Renaissance vendor financing at 30 September 2001 was 684 million in guarantees of financing made in connection with the delivery of the six ships.

As part of the restructuring, which was completed in fiscal year 2002, ownership of the six ships, including four that were previously owned by four special purpose leasing entities in which we had an interest, was transferred to subsidiaries of Cruiseinvest (Jersey) Ltd., an entity in which we own no shares and on the management of which we have no control. Cruiseinvest financed this acquisition principally through bank borrowings, guaranteed in part by us. In addition, we purchased subordinated limited recourse notes issued by Cruiseinvest, agreed to provide Cruiseinvest with a line of credit and met certain of our commitments under our pre-existing guarantees. Interest on the subordinated limited recourse notes is payable only from amounts remaining after satisfaction of payments due on Cruiseinvest s bank borrowings.

In parallel, the remarketing of the ships commenced, with the objective to put the ships back into cruise operations as quickly as possible, through bare-boat or time charters, and eventually sell them to the new operators when normal conditions are restored on the second-hand market. One of these ships was chartered to Swan Hellenic, a subsidiary of P&O Princess and resumed operations in April 2003. Two other ships have been operated from summer 2003 by Oceania Cruise, a new cruise-operator. Two others have also been operated from spring 2003 by Pullmantur, with possibilities of extension. A long-term lease has also been finalised with the European operator Delphin Seereisen for one ship, which has resumed cruise operations from summer 2003. The two other ships supplied to Renaissance without vendor financing have also been taken over by P&O Princess pursuant to a forward sales contract for transfer of title in 2005, and resumed cruise operations in November and December 2002. In brief, all the eight former Renaissance ships had resumed cruise operations on or before July 2003.

Our overall exposure to Renaissance vendor financing was 344 million at 30 September 2003, as compared with 368 million at 31 March 2003.

In addition to our Renaissance vendor financing exposure , our other outstanding Marine vendor financing guarantees amounted to 306 million at 30 September 2003 compared with 565 million at 31 March 2003, relating to six cruise-ships and two high-speed ferries for four different customers. This decrease is mainly due to the early reimbursement to us of 180 million of debt due to us from two special purpose entities following the agreement with our lenders on our financing package.

Consequently, our total vendor financing exposure in relation to Marine amounted to 650 million at 30 September 2003 compared with 933 million at 31 March 2003.

The last shipbuilding contract having benefited from any type of vendor financing came into force in November 1999. There is no other vendor financing arrangement or commitment relating to any contract in Marine s order backlog.

As a result of the foregoing, we maintained a provision of 140 million at 30 September 2003 to cover risks associated with Marine vendor financing, unchanged compared with 31 March 2003.

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**CORPORATE AND OTHER**

Corporate and Other comprises all units accounting for Corporate costs, the International Network and the overseas entities in Australia, New Zealand, South Africa (prior to its disposal) and India which are not reported by Sectors.

The following table sets out some key financial and operating data for our Corporate and Other organisation:

| Corporate & Other Actual figures | First Half Sept. 02 (Unaudited) | 2nd Half March 03 (Unaudited) | Full Year 2002/03 | First Half Sept. 03 (Unaudited) | % Variation Sept. 03/ Sept 02 | % Variation Sept. 03/ March 03 |
|---|---|---|---|---|---|---|
| | | | (in  million) | | | |
| Order backlog | 39 | 52 | 52 | **105** | 169% | 102% |
| Orders received | 113 | 101 | 214 | **57** | (50%) | (44%) |
| Sales | 115 | 90 | 205 | **60** | (48%) | (33%) |
| Operating income | 56 | (100) | (44) | **(26)** | | |
| EBIT | 70 | (116) | (46) | **(32)** | | |
| Capital employed | 1,601 | 1,208 | 1,208 | **1,342** | | |

| Corporate & Other Comparable figures | First Half Sept. 02 (Unaudited) | 2nd Half March 03 (Unaudited) | Full Year 2002/03 | First Half Sept. 03 (Unaudited) | % Variation Sept. 03/ Sept 02 | % Variation Sept. 03/ March 03 |
|---|---|---|---|---|---|---|
| | | | (in  million) | | | |
| Order backlog | 38 | 51 | 51 | **105** | 176% | 106% |
| Orders received | 81 | 100 | 181 | **57** | (30%) | (43%) |
| Sales | 88 | 89 | 177 | **60** | (32%) | (33%) |
| Operating income | 55 | (101) | (46) | **(26)** | | |

**Operating income**

Operating income included Corporate costs as well as the contribution of the International Network and the overseas entities, for the first half of fiscal year 2004, the operating income included as well some costs from the headquarters of the former Power Sector that have been allocated to Corporate. Operating income was (26) million in the first half of fiscal year 2004, compared with (44) million for the full year 2003. Costs incurred in fiscal year 2004 include some former sector costs, which are now borne by Corporate for around 25 million for the full year 2003.

**Capital employed**

Capital employed were 1,342 million as at 30 September 2003, including the main part of our other fixed assets, net (See Note 9 to the 30 September 2003 Interim Consolidated Financial Statements).

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**FINANCIAL STATEMENTS**

**INCOME STATEMENT**

The following table sets out, on a consolidated basis, the elements of our operating income both on an actual and on a comparable basis for the Group as a whole:

| **Total Group**<br>**Actual figures** | **First Half Sept. 02 (unaudited)** | **2nd Half March 03 (unaudited)** | **Full year 2002/03** | **First Half Sept. 03 (unaudited)** |
|---|---|---|---|---|
| | | (in  million) | | |
| **Sales** | **10,769** | **10,582** | **21,351** | **8,854** |
| Cost of sales | (8,905) | (10,282) | (19,187) | **(7,577)** |
| Selling expenses | (515) | (455) | (970) | **(435)** |
| R & D expenses | (319) | (303) | (622) | **(239)** |
| Administrative expenses | (488) | (591) | (1,079) | **(471)** |
| **Operating income** | **542** | **(1,049)** | **(507)** | **132** |
| *Operating margin* | 5.0% | (9.9%) | (2.4%) | **1.5%** |

| **Total Group**<br>**Proforma figures** | **Full year 2002/03 (unaudited)** | **First Half Sept. 03 (unaudited)** |
|---|---|---|
| | (in  million) | |
| **Sales** | **17,078** | **7,308** |
| Cost of sales | (16,001) | **(6,454)** |
| Selling expenses | (609) | **(286)** |
| R & D expenses | (465) | **(187)** |
| Administrative expenses | (813) | **(347)** |
| **Operating income** | **(810)** | **34** |
| *Operating margin* | (4.7%) | **0.5%** |

**Sales**

Sales were 8,854 million in the first half of fiscal year 2004, compared with 10,769 million in the first half of fiscal year 2003, a decrease of 18%, due principally to exchange rate variations, to the disposal of the Industrial Turbines businesses, and to lower sales of Power Turbo-systems while sales in other sectors remained stable or slightly increased on a comparable basis. Sales in first half of fiscal year 2004 decreased by 16% as compared with sales in second half of fiscal year 2003.

Percentage of services in sales was 25% in first half of fiscal year 2004, compared with 21% and 26 % in first half of fiscal year 2003 and in second half of fiscal year 2003.

No single customer represented more than 10% of our sales in any of the three periods discussed.

**Selling and administrative expenses**

Selling and administrative expenses were € 906 million in first half of fiscal year 2004 compared with € 1,003 million in first half of fiscal year 2003 and €1,046 million in second half of fiscal year 2003. This decrease reflected the savings and the first impact of the restructuring programmes launched as part of our action plan.

**Research and Development expenses**

Research and Development expenses were €239 million in the first half of fiscal year 2004, decreasing compared with €319 million in the first half of fiscal year 2003 and with € 303 million in second half of fiscal

year 2003. This decrease was due to a decrease in expenses in connection with the GT24/GT26 gas turbines as the technology stabilised, and to the phasing of these expenses.

**Operating income (loss) and operating margin**

Operating income is measured before restructuring costs, goodwill and other acquired intangible assets, amortisation expenses and other items, which include foreign exchange gains and losses, gains and losses on sales of assets, pension costs and employee profit sharing and before taxes, interest income and expenses. Operating margin is calculated by dividing the operating income by the total annual sales.

Operating income and operating margin were 132 million and 1.5 % in the first half of fiscal year 2004, as compared with operating income of  542 million and margin of 5% in first half of fiscal year 2003, on an actual basis and an operating income of (1 049) million and margin of (9.9)% in the second half of fiscal year 2003.

In the second half of fiscal year 2003, exceptional provisions and accrued costs were booked for the GT24/GT26 heavy-duty gas turbines and for UK Trains.

Our operating margin in the first half of fiscal year 2004 was impacted by:

- the lower level of sales which was not fully offset by corresponding decrease in operating expenses as the restructuring plans being launched in this first half year of 2004 did not yet have a material impact; and

- additional costs amounting to 102 million for our Transport Sector and to 60 million for our Power Environment Sector respectively as a result of additional provisions made following project reviews in the US and of the bankruptcy of two major subcontractors in the US.

**Earnings Before Interest and Tax (EBIT)**

EBIT was (296) million in the first half of fiscal year 2004, compared with 322 million in the first half of fiscal year 2003 and (1,451) million in the second half of fiscal year 2003.

The negative EBIT in the first half of fiscal year 2004 was due to:

- the low level of operating income;

high restructuring costs amounting to €276 million in the first half of fiscal year 2004, compared with € 80 million in the first half of fiscal year 2003. The increase in first half of fiscal year 2004 was due to additional restructuring plans in order to reduce our overheads significantly. During the first half of the year, restructuring plans were implemented and led to simplification of administrative processes and to a reduction of layers. Restructuring costs are accrued when management announces the reduction or closure of facilities, or a programme to reduce the workforce and when related costs are precisely determined. Such costs include employees severance and termination benefits, estimated facility closing costs and write-off of assets;

pension costs were €138 million in the first half of fiscal year 2004, compared with €97 million in the first half of fiscal year 2003 and €117 million in the second half of fiscal year 2003. This increase was primarily due to an increase in the amortisation of the unrecognised actuarial difference between pension obligations and the fair market value of the assets following the fall in the global stock market; and

partly offset by exceptional capital gains of €49 million mainly on the disposal of our Industrial Turbines businesses and of real estate in first half of fiscal year 2004, whereas capital losses occurred in the first half of fiscal year 2003 for an amount of €10 million corresponding mainly to the disposal of South Africa operations and ALSTOM Power Insurance Ltd.

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**Financial expenses, net**

The deterioration of our net financial expenses, 220 million in the first half of fiscal year 2004 compared with 128 million in the first half of fiscal year 2003 and 142 million in the second half of fiscal year 2003, was due to the increase in fees paid on credit lines in connection with the agreements reached in March 2003 for a bridge facility and extension of maturity for certain loans and to the amortisation of costs on securitisation of future receivables with the final delivery of cruise-ships as well as by foreign exchange losses (20 million) where gains of 35 million were recorded in the first half of fiscal year 2003.

Exceptional fees linked to restructuring of our debt (both for the negotiations in March 2003 for the new bridge facility and extended loans and for the refinancing package agreement in September 2003) should amount to a total of 94 million, which will be paid out over a number of years. The related charge in our income statement was around 4 million for the first half of fiscal year 2004, and an additional 8 million should be incurred during the second half of the fiscal year. The remaining amount will be amortised over the next five fiscal years.

**Income tax**

The income tax credit was 29 million for the first half of fiscal year 2004. In first half of fiscal year 2004, we recognised deferred tax credit for 77 million, partially offset by a current income tax charge of 48 million.

Our deferred tax assets amounted to 1,884 million as of 30 September 2003. On the basis of our business plan, we expect our deferred tax assets will be recovered, in general within five years.

**Goodwill amortisation**

Goodwill amortisation amounted to 135 million in the first half of fiscal year 2004 compared with 144 million in the first half of fiscal year 2003 and 140 million in the second half of fiscal year 2003. The decrease was due to the disposal of our Industrial Turbines businesses.

At 31 March 2003, we requested a third party valuer to provide an independent report, as part of our impairment tests, performed annually, on goodwill and other intangible assets. The valuation supported our opinion that our goodwill and other intangible assets were not impaired on a reporting unit basis. The review of our business plan during the summer has not caused us to conclude that triggering events have occurred that would lead to impairment testing at 30 September 2003. A similar independent third party valuation will be requested at 31 March 2004.

**Net income (loss)**

The net loss in first half of fiscal year 2004 amounted to 624 million, compared with a net income of 11 million in the first half of fiscal year 2003 and a net loss of 1,443 million in the second half of fiscal year 2003.

**BALANCE SHEET**

**Goodwill, net**

Goodwill, net decreased to 3,931 million at 30 September 2003 compared to 4,440 million at 31 March 2003 due to the amortisation of goodwill for 135 million and to the disposal of our Industrial Turbines businesses which led to a decrease of the corresponding goodwill for 371 million.

**Working capital**

Working capital (defined as current assets less current liabilities and provisions for risks and charges) at 30 September 2003 was (4,640) million compared with (4,886) million as reported at 31 March 2003. This variation was due to a higher decrease of customers deposits and advances and of trade payables as compared with inventories and contracts in progress and trade receivables.

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Net effects on working capital due to foreign currency translation were positive by 115 million in the first half of fiscal year 2004.

**Customer deposits and advances**

We record customer deposits and advances on our balance sheet upon receipt as gross customer deposits and advances. The gross amounts were 12,781 million and 12,689 million at 30 September 2003 and 31 March 2003 respectively. At the balance sheet date, we apply these deposits first to reduce any related gross accounts receivable and then to reduce any inventories and contracts in progress relating to the project for which we received the deposit or advance. Any remaining deposit or advance is recorded as Customer deposits and advances on our balance sheet. As of 30 September 2003, our net customer deposits and advances were 3,085 million, compared with 3,541 million as of 31 March 2003.

The decrease of our customer cash deposits and advances of 456 million which occurred during first half of fiscal year 2004 included currency translation effects for 54 million and the impact of the disposal of our Industrial Turbines businesses for 181 million.

**Provisions for risks and charges**

At 30 September 2003, the provisions for risks and charges were 3,500 million compared with 3,698 million at 31 March 2003.

This net decrease was accounted mainly for by the following movements:

- a decrease in provisions on contracts for 262 million (mainly the GT24/GT26 gas turbines);
- an increase in restructuring provisions and other provisions of 170 million; and
- a decrease of 106 million in foreign currency translation effects, change in scope and other adjustments.

**Shareholders equity**

Shareholders equity at 30 September 2003 was 277 million, including minority interests, compared with 853 million at 31 March 2003. This decrease was mainly due to the net loss for the period of 624 million, partly offset by the positive impact of cumulative translation adjustments for 49 million.

**Financial debt and net debt**

**Securitisation of existing receivables**

In order to fund our activity, we sell selected existing trade receivables within which we irrevocably and without any recourse transfer eligible receivables to a third party. The net cash proceeds from securitisation of existing trade receivables at 30 September 2003 was 212 million compared with 357 million at 31 March 2003.

**Securitisation of future receivables**

In order to finance working capital and to mitigate the cash-negative profiles of some contracts, we sell to third parties selected future receivables due from our customers. This securitisation of future receivables has the benefit of reducing our exposure to customers (since some future receivables are sold without recourse to us should the obligor under the receivable default for reasons other than our failure to meet our obligations under the relevant contract) and applies principally to Marine and Transport. The total securitisation of future receivables at 30 September 2003 was 522 million compared with 1,292 million at 31 March 2003. The

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decrease in the first half of fiscal year 2004 compared with fiscal year 2003 is mainly due to the delivery of two cruise-ships by our Marine Sector. During the first half of the fiscal year 2004, we did not enter into any new securitisation of future receivables.

**Financial debt**

Our financial debt was €6,076 million at 30 September 2003, compared with €6,331 million at 31 March 2003. Our financial debt decreased due to the decrease of securitisation of future receivables by €770 million partly offset by the increase of borrowings by €507 million.

**Net debt**

We define net debt as financial debt less short-term investments, cash and cash equivalents. Net debt was €4,307 million at 30 September 2003, compared with €4,561 million at 31 March 2003. Our net debt decreased due to the proceeds on disposal of investments partly offset by net cash used in operations.

**LIQUIDITY AND CAPITAL RESOURCES**

**Consolidated statement of cash flows**

The following table sets out selected figures concerning our consolidated statement of cash flows:

| Total Group<br>Actual figures | First Half Sept. 02<br>(Unaudited) | 2nd Half March 03<br>(Unaudited) | Full Year 2002/03 | First Half Sept. 03<br>(Unaudited) |
|---|---|---|---|---|
| | | (in € million) | | |
| Net income after elimination of non cash items | 408 | (1,495) | (1,087) | (406) |
| Change in net working capital | (325) | 875 | 550 | (325) |
| **Net cash provided by (used in) operating activities** | **83** | **(620)** | **(537)** | **(731)** |
| **Net cash provided by (used in) investing activities** | **(347)** | **6** | **(341)** | **975** |
| **Net cash provided by (used in) financing activities** | **658** | **(37)** | **621** | **(2)** |
| | **394** | **(651)** | **(257)** | **242** |
| Net effect of exchange rate | | (41) | (41) | 15 |

| | | | | |
|---|---|---|---|---|
| Other changes and reclassifications | (252) | (212) | (464) | (3) |
| **Decrease (increase) in net debt** | **142** | **(904)** | **(762)** | **254** |

**Net cash provided by operating activities**

Net cash provided by operating activities is defined as the net income after elimination of non-cash items plus working capital movements. Net cash provided by (used in) operating activities was €(731) million in the first half of fiscal year 2004 compared to €83 million in the first half of fiscal year 2003 and €(620) million in the second half of fiscal year 2003.

Net income after elimination of non-cash items was €(406) million in the first half of fiscal year 2004. This amount represented the cash generated by the net income before working capital movements. As provisions are included in the definition of our working capital, provisions are not part of the elimination of non-cash items.

Change in net working capital was €(325) million. The principal movements in working capital were due to:

- an increase of €355 million in trade and other receivables, mainly in Power Environment, T&D and to a lesser extent in Transport, Power Turbo-systems and Power Services;
- a decrease of €144 million in sale of trade receivables (securitisation of existing receivables);
- a decrease of €319 million in inventories and contracts in progress, mainly in Power Turbo-systems, Transport and Marine;

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a decrease of €262 million in contract-related provisions, mainly due to the application of GT24/GT26 provisions partially offset by new provisions booked on other contracts not yet applied;

a decrease of €221 million in customer deposits and advances, mainly in Power Environment, Transport and T & D; and

an increase of €168 million in trade payables and accrued contract costs, resulting from a decrease in payables due to more difficult credit terms and to an increase in accrued contract costs due to the trading of contracts.

**Net cash provided by investing activities**

Net cash provided by investing activities was €975 million in the first half of fiscal year 2004. This amount comprised:

Proceeds of €166 million from disposals of property, plant and equipment (including €148 million from the disposal of real estate);

Capital expenditures for €105 million;

Decrease in other fixed assets of €145 million; including the proceeds from the early reimbursement of receivables due to us by two special purpose entities in connection with Marine vendor financing; and

Cash proceeds from the sale of investments, net of net cash sold for €772 million, comprising of the proceeds from our Industrial Turbines businesses.

Net cash provided by (used in) investing activities was €6 million in the second half of fiscal year 2003 and €(347) million in the first half of fiscal year 2003. The net cash outflow in fiscal year 2003 was mainly due to €410 million of capital expenditures and €154 million of cash expenditures for the acquisition of the remaining 49% in Fiat Ferroviaria Spa.

**Net cash provided by financing activities**

Net cash used by financing activities in first half of fiscal year 2004 was €2 million compared with €621 million of net proceeds in fiscal year 2003, including primarily proceeds from a capital increase completed in July 2002.

**Decrease (increase) in net debt**

Our net debt decreased by € 254 million in first half of fiscal year 2004, compared with an increase of €762 million in the full fiscal year 2003.

**MATURITY AND LIQUIDITY**

We rely on a variety of sources of liquidity in order to finance our operations, including principally borrowings under revolving credit facilities, the issuance of commercial paper and asset disposals. Additional sources include customer deposits and advances and proceeds from the sale of trade receivables, including future trade receivables. In the past, we have also used the issuance of securities, including debt securities and preferred shares, as a source of liquidity.

At 31 March 2003, we had 600 million of unused credit, resulting from a bridge credit facility with a group of banks executed in March 2003. Also in March 2003, we entered into an agreement with a consortium of banks to extend until January 2004 the maturity of a revolving credit facility of 400 million and two bilateral loans totaling 75 million, originally scheduled to mature in March and April 2003. Proceeds from the disposal of assets foreseen in our strategy and action plan are, subject to certain exceptions and thresholds, first to be used to repay and cancel the bridge facility and, subsequently, the extended facilities.

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In August 2003, we entered into a new financing package with more than 30 of our commercial lenders and the French State, and in September 2003 we amended this financial package, as described above under  Status of our action plan and main events of first half of fiscal year 2004  Financing package.  When this financing package is implemented, it will reduce and substantially change the maturity profile of our debt.

**Cash receipts and debt repayment since 31 March 2003**

Since 31 March 2003 through 30 September 2003, we have realised net cash proceeds of □148 million from real estate disposals and □842 million from the sale of the Industrial Turbines business. □30 million of the proceeds from the real estate disposals and □443 million of proceeds from the sale of Industrial Turbines were used to repay amounts outstanding under our □600 million bridge facility. As a result, at 30 September 2003, □127 million remained outstanding under this facility. We also reimbursed □254 million of syndicated loans maturing on 1 August 2003.

In August 2003 we received □120 million in commercial paper financing from bank syndicates and □300 million in commercial paper financing from the *Caisse des Dépôts et Consignations*, as well as □180 million from the early reimbursement of receivables due to us by two special purpose entities in connection with Marine vendor financing. We used part of these proceeds, as well as the remaining proceeds from real estate disposals and the sale of Industrial Turbines, to finance our activity and working capital requirements.

**Expected impact of financing package and disposals**

We expect that future proceeds from the financing package and disposals of assets will provide us with significant additional cash resources (approximately □4,300 million before price adjustments on disposals, if any). These are expected to include:

□300 million from a capital increase, with proceeds expected to be received in November 2003;

at least □900 million of bonds mandatorily reimbursable into shares, with proceeds expected to be received in December 2003;

approximately □1,500 million of new subordinated debt, of which the French State will provide □300 million. □650 million of proceeds is expected to be received in December 2003 and □850 million in February 2004;

□200 million of new subordinated long term bonds to be issued to the French State, with proceeds expected in December 2003;

□300 million of subordinated bonds reimbursable with shares to be issued to the French State, with proceeds expected to be received in December 2003;

the major part of the proceeds from the sale of our T&D Sector (€950 million before closing adjustments), currently expected to be received in January 2004; and

50% of the remaining €125 million (currently held in escrow) from the completion of the sale of our Industrial Turbines division (assuming no price adjustment), expected to be received in April 2004, and the remainder in April 2005.

The €1,500 million of new subordinated loans, as well as our new €3.5 billion Bonding Facility, are subject to financial covenants, which are described in Note 14 to our Consolidated Financial Statements .

To strengthen our liquidity, in connection with our financing plan, the *Caisse des Dépôts et Consignations* has also committed to provide us with up to an additional €900 million in commercial paper financing which will be available to us until the long term portion of our financing package becomes available (expected in December 2003), except that up to €100 million may remain outstanding until we receive the proceeds from the sale of our T&D Sector (expected in January 2004). €300 million of this facility have been used as of 30 September 2003.

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Assuming receipt as and when expected, we intend to use the proceeds of our financing package and disposals as follows:

Proceeds from the €900 million of mandatorily reimbursable bonds and €350 million of the new subordinated loans will be immediately used to reimburse our €1,250 million revolving credit facility maturing in April 2004. The early repayment of this credit is expected in December 2003.

€550 million of the new subordinated loans will be used to repay outstanding bonds maturing in February 2004;

€127 million of proceeds from the €300 million capital increase will be used to reimburse the remaining amounts outstanding under the bridge facility;

€475 million of proceeds from the sale of our T&D sector will be used to repay amounts outstanding under the extended facilities; and

The remainder (approximately €1,700 million) will be used to reimburse short term facilities and commercial paper (€1,320 million) and increase liquidity available to the Group.

**Maturity profile**

The following table sets forth our outstanding financial debt obligations (including future receivables securitised) as of 30 September 2003 and taking into account the assumptions described above :

| | **Oustanding lines as of 30 Sept. 03** | ***Third quarter FY2004*** | ***Fourth quarter FY2004*** | **Fiscal Year 2004** | **Fiscal Year 2005** | **Fiscal Year 2006** | **Fiscal Year 2007** | **After Fiscal Year 2007** |
|---|---|---|---|---|---|---|---|---|
| | | | | **(Unaudited figures)** | | | | |
| Redeemable preference shares | **205** | | | | | (205) | | |
| Subordinated notes | **250** | | | | | | (250) | |
| Subordinated loans (PSDD) | | 650(4) | 850(4) | 1,500 | | | | (1,500) |
| Subordinated long term bond (TSDD) | | 200(4) | | 200 | | | | (200) |
| Subordinated bonds reimbursable with shares (TSDDRA)(5) | | 300(4) | | 300 | | | | |
| Bonds | **1,200** | | (550) | (550) | | | (650) | |
| Syndicated loans | **2,498** | (1,377)(2) | (400) | (1,777) | | | (721) | |
| Bilateral loans | **358** | | (75) | (75) | | (50) | (33) | (200) |
| Commercial paper | **1,320**(1) | (800) | (100) | (900) | (420) | | | |
| Bank overdrafts/other facilities/accrued interests | **323**(3) | (281) | | (281) | (16) | (3) | (3) | (20) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Sub-total** | **6,154** | **(1,308)** | **(275)** | **(1,583)** | **(436)** | **(258)** | **(1,657)** | **(1,920)** |
| Future receivables | **522** | (113) | (118) | (231) | (236) | (55) | | |
| **Total** | **6,676** | **(1,421)** | **(393)** | **(1,814)** | **(672)** | **(313)** | **(1,657)** | **(1,920)** |
| Capital increase | | 300(4) | | 300 | | | | |
| Bonds reimbursables with shares (ORA) | | 900(4) | | 900 | | | | |
| **Liquidity and other funding sources** | **6,676** | **(221)** | **(393)** | **(614)** | **(672)** | **(313)** | **(1,657)** | **(1,920)** |
| **Financial debt** | **6,076** | | | | | | | |
| **Available lines** | **600** | | | | | | | |

(1) Maximum availability under commitments provided by a syndicate of banks (120 million) and the Caisse des Dépôts et Consignation (1,200 million). Including a 600 million commercial paper that was not drawn at 30 September 2003.

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(2) Includes the expected early repayment of 1,250 million of syndicated loans in the third quarter of fiscal year 2004.
(3) Facilities entered into by subsidiaries have been classified as being immediately due because such facilities are generally uncommitted.
(4) Expected proceeds to ALSTOM.
(5) Subordinated bonds reimbursable with shares (TSDDRA) will only be reimbursed in cash in the event the European Commission does not approve their reimbursement with shares. See « Status of our action plan and main events of first half of fiscal year 2004 Financing package ».

Total available unused credit lines together with cash available in the Group amounted to 2,369 million at 30 September 2003, compared with 2,370 million at 31 March 2003. The amounts consisted of:

Available lines at parent Group level, which were constituted of commercial paper from the French State for 600 million at 30 September 2003, compared with a bridge facility of 600 million at 31 March 2003;

Cash available at parent Group level was 443 million at 30 September 2003, compared with 610 million at 31 March 2003; and

Cash available at subsidiary level of 1,326 million at 30 September 2003, compared with 1,160 million at 31 March 2003.

ALSTOM, the parent company, may readily access some cash held by wholly owned subsidiaries through the payment of dividends or pursuant to intercompany lending arrangements. Local constraints can delay or restrict this access, however. Furthermore, while we have the power to control decisions of subsidiaries of which we are the majority owner, our subsidiaries are distinct legal entities and the payment of dividends and the making of loans, advances and other payments to us by them may be subject to statutory or contractual restrictions, be contingent upon their earnings or be subject to business or other constraints. These limitations include local financial assistance rules, corporate benefit laws and other legal restrictions. Our policy is to centralise liquidity of subsidiaries at the parent company level when possible.

## OFF BALANCE SHEET COMMITMENTS AND CONTRACTUAL OBLIGATIONS

### Off Balance Sheet Commitments

The following table sets forth our off-balance sheet commitments, which are discussed further at Note 17 to the 30 September Interim Consolidated Financial Statements:

| Total Group<br>Actual figures | At 31 March 2003 | At 30 Sept. 2003 (unaudited) |
|---|---|---|
| | (in  million) | |
| Guarantees related to contracts | 9,465 | 8,206 |
| Guarantees related to vendor financing | 749 | 643 |
| Discounted notes receivables | 11 | 9 |
| Commitments to purchase fixed assets | 7 | |

| | | |
|---|---|---|
| Other guarantees | 94 | 49 |
| **Off balance sheet commitments** | **10,326** | **8,907** |

**Guarantees related to contracts**

The overall amount given as guarantees on contracts decreased from 9,465 million in March 2003 to 8,206 million in September 2003, a decrease by 13% mainly due to exchange rate variations and to the decrease of our orders in hand by 5% on a comparable basis (and 6% due to exchange rates).

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**Vendor Financing Exposure**

In some instances, we have provided financial support to institutions which finance some of our customers and also, in some cases, directly to our customers for their purchases of our products. We refer to this financial support as vendor financing . We have decided that we will no longer provide any additional vendor financing guarantees to our customers.

Vendor financing totalled  969 million at 30 September 2003 (of which 643 million was off balance sheet) compared to 1,259 million at 31 March 2003 (of which 749 million was off balance sheet). This decrease was mainly due to the early reimbursement to us of 180 million of debt due to us from two special purpose entities following the agreement with our lenders under our financing package.

**Contractual Obligations**

See Note 17 to the 30 September 2003 Interim Consolidated Financial Statements

**LEGAL PROCEEDINGS**

**General proceedings**

We are involved in several legal proceedings as a plaintiff or a defendant, 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 we operate, particularly for large, long-term projects. In some cases the amounts claimed against us in these proceedings and disputes are significant, ranging up to approximately US$290 million (or approximately 248 million at 30 September 2003) and, if adversely determined, may have a material adverse effect on our financial condition or results of operation. Some proceedings against us are without a specified amount including some relating to our large gas turbines. All claims and legal proceedings in which we are involved are reviewed regularly by project managers with their Sector management and are reviewed on a half year basis with our statutory auditors, in order to determine appropriate level of provisions.

Some entities of our group are bound by confidentiality agreements entered into in the normal course of their activities and that are normally linked to major contracts. Breach of such confidentiality obligations could lead to the payment of indemnities or other recourse that could have a material adverse impact on our financial condition.

**Claims relating to Asbestos**

We are subject to regulations, including in France, the US and the UK, regarding the control and removal of asbestos containing material and identification of potential exposure of employees to asbestos. It has been our policy for many years to abandon definitively the use of products containing asbestos by all of our operating units world-wide and to promote the application of this principle to all of our suppliers, including in those countries where the use of asbestos is permitted. In the past, however, we have used and sold some products containing asbestos, particularly in France in our Marine Sector and to a lesser extent in our other Sectors.

As of 30 September 2003, in France, we were aware of approximately 1,990 asbestos sickness related declarations accepted by the French Social Security authorities in France concerning our employees, former employees or from third parties, arising out of our activities in France. All of such cases are treated under the French Social Security system which pays the medical and other costs of those who are sick and which pays a lumpsum indemnity. Out of these 1,990 declarations, we were aware of approximately 156 asbestos-related cases in France from our employees, former employees or from third parties. These persons have instituted judicial proceedings against certain of our subsidiaries with the aim of obtaining a court decision holding these subsidiaries liable for an inexcusable fault *(faute inexcusable)* in order to obtain a supplementary compensation

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above payments made by the French Social Security funds of related medical costs. All decisions rendered as of today by the Social Security Affairs Courts in proceedings involving our subsidiaries have found these subsidiaries liable on the grounds of inexcusable fault. Decisions of the Courts of Appeal have all confirmed these findings of inexcusable fault (25 decisions rendered as of 30 September 2003). We have appealed all of such decisions to the French Supreme Court. Even where we have been found liable on the grounds of inexcusable fault, we do not expect to suffer any material adverse financial consequences, because the financial consequences of any liability for our inexcusable fault have been attributed by court decision or by applicable regulations to the French Social Security (medical) funds. Thus, in 102 of the 156 proceedings before French courts at 15 September 2003, which concern our Marine Sector, the social security authorities have ruled that the financial consequences of any liabilities for inexcusable fault will not be attributed to our Marine Sector and will be borne by the Social Security authorities. Although as of 15 September 2003 we had not yet obtained a specific ruling from the relevant French Social Security authorities in respect of the remaining 54 proceedings, of which 40 concern our Power Sector, we believe the same principle affording us financial protection will apply to such proceedings and that, accordingly, we will not suffer any material adverse financial consequences as a result of such asbestos related litigations in France.

We therefore believe that compensation for most of the current 156 proceedings involving certain of our subsidiaries as of 30 September 2003, including cases where we may be found to be at fault, is or will be borne by the general French Social Security (medical) funds. Based on applicable legislation and current case law, we also believe that the publicly funded Indemnification Fund for Asbestos Victims (FIVA), created in 2001 and effective since 29 March 2002, does not increase our current risk exposure. The FIVA was implemented to compensate persons harmed by exposure to asbestos in France. Once a person has received an offer of compensation, the fund itself may then take action against the employer considered responsible. However this subrogatory right can only be exercised pursuant to and within the limits of French Social Security regulations. We believe that those cases where compensation may not be definitely borne by the general French Social Security (medical) funds or by the FIVA represent an immaterial exposure for which we have not made any provisions.

In addition to the foregoing, in the United States, as of 30 September 2003, we were subject to approximately 154 asbestos-related personal injury lawsuits which have their origin solely in the Company s purchase of some of ABB s power generation business, for which we are indemnified by ABB. We are also currently subject to two class action lawsuits in the United States asserting fraudulent conveyance claims against various ALSTOM and ABB entities in relation to Combustion Engineering, Inc. ( CE ), for which we have asserted indemnification against ABB. CE is a United States subsidiary of ABB, and its power activities were part of the power generation business purchased by us from ABB. In January 2003, CE filed a pre-packaged plan of reorganisation in United States bankruptcy court. This plan was recently confirmed by the bankruptcy court and a United States federal district court. The plan has been appealed and has not yet become effective; consummation of the plan is subject to certain other conditions specified therein. In addition to its protection under the ABB indemnity, ALSTOM believes that under the terms of the plan it would be protected against pending and future personal injury asbestos claims, or fraudulent conveyance claims, arising out of the past operations of CE.

As of 30 September 2003, we were also subject to approximately 38 other asbestos-related personal injury lawsuits in the United States involving approximately 533 claimants that, in whole or in part, assert claims against ALSTOM which are not related to ALSTOM s purchase of some of ABB s power generation business or as to which the complaint does not provide details sufficient to permit us 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, we believe that we have valid defences and, with respect to a number of lawsuits, we are asserting rights to indemnification against a third party.

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We have not in recent years suffered any adverse judgement, or made any settlement payment, in respect of any US personal injury asbestos claim. Between 31 October 2002 and 30 September 2003, a total of 139 cases involving approximately 17,672 claimants were voluntarily dismissed by plaintiffs, typically without prejudice (which is to say the plaintiffs may refile these cases in the future).

For purposes of the foregoing discussion of asbestos-related cases, we consider a claim to have been dismissed, and to no longer be pending against us, if the plaintiffs attorneys have executed a notice or stipulation of dismissal or non-suit, or other similar document.

We are also subject to a minor number of asbestos related or other employee personal injury related claims in other countries, mainly in the UK where we are currently subject to approximately 153 such claims.

While the outcome of the existing asbestos-related cases described above is not predictable, we believe that those cases will not have a material adverse effect on our financial condition. We can give no assurances that asbestos- related cases against us will not grow in number or that those we have at present, or may face in the future, may not have a material adverse impact on our financial condition.

**Claims from Royal Caribbean Cruises**

In 1998, Cegelec (whose rights and obligations belong for the purposes of the proceedings described below to ALSTOM Power Conversion), and Kamewa AB (now Rolls-Royce AB) decided to jointly design, manufacture, market and sell podded propulsion units, or pods, through a consortium arrangement. Pods are a technology used in electric propulsion for ships that can be used instead of conventional inboard propulsion motors and rudders. Pods are found within an integrated propulsion unit that is mounted underneath the hull of the ship.

To date, 39 pods have been delivered by the consortium, 25 of them to ALSTOM Marine/Chantiers de l Atlantique. Chantiers de l Atlantique has to date delivered nine cruise ships equipped with podded drives to four cruise operators. Between June 2000 and May 2002, Chantiers de l Atlantique delivered four new cruise ships of the Millennium class to Celebrity Cruises, one of the brands of Royal Caribbean Cruises Ltd. ( RCCL ).

A number of the vessels delivered to RCCL experienced technical problems with their pods, and, as a result, some of them had to be temporarily removed from service to be repaired in dry-dock. This occurred more than once with respect to certain of the ships.

On 7 August 2003, RCCL and various RCCL group companies, including Celebrity Cruises, filed a lawsuit in the State Court of Miami, Florida, against Rolls-Royce plc, Rolls Royce AB, various U.S. members of the Rolls-Royce group, ALSTOM Power Conversion SA, ALSTOM Inc, ALSTOM Power Conversion Inc., Marine Service Partners Inc. and ALSTOM Marine US.

In this lawsuit, RCCL claims damages for a global estimated amount of approximately US$290 million for alleged misrepresentations in the selling of the pods, and negligence in the design and manufacture of the pods. ALSTOM and Rolls-Royce are strongly contesting this claim.

While we believe the RCCL complaint is without merit, we cannot currently predict the outcome. Any related adverse court decisions could have a material adverse impact on our financial condition and results of operations.

**SEC Investigation relating to ALSTOM Transportation Inc.**

On 30 June 2003, we announced that we were conducting an internal review, assisted by external lawyers and accountants, following receipt of anonymous letters alleging accounting improprieties on a railcar contract

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being executed at the New York facility of ALSTOM Transportation Inc. ( ATI ), one of our US subsidiaries. Following receipt of these letters, the SEC and the FBI began informal inquiries. We believe the FBI inquiry is currently dormant.

We also announced that the 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 Company s consolidated financial statements approved by shareholders on 2 July 2003.

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

We have fully cooperated with the SEC and the FBI in this matter and intend to continue to do so. The SEC s investigation is ongoing, and we cannot predict when it will be completed or its outcome. Any adverse developments in connection with this matter, including, but not limited to, any enforcement action against us or any of our personnel, could result in civil or criminal sanctions against us, which could limit our ability to obtain governmentally-funded transportation contracts in the United States, or could otherwise materially negatively impact us and our business. Our management has spent, and may in future be required to spend, considerable time and effort dealing with the internal and external actions relating to ATI.

**United States Putative Class Action Lawsuits**

ALSTOM, and certain of its current and former officers, recently have been named as defendants in a number of purported shareholder class action lawsuits filed on behalf of various alleged classes of purchasers of American Depositary Receipts or other ALSTOM securities between various dates between 17 November 1998 and 30 June 2003. The actions seek to allege violations of United States federal securities laws, specifically Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, on the basis of various allegations that there were untrue statements of materials facts, and/or omissions to state material facts necessary to make the statements made not misleading, in various ALSTOM public communications regarding our business, operations and prospects, causing the putative classes to purchase ALSTOM securities at artificially inflated prices. The plaintiffs seek, among other things, class action certification, compensatory damages in an unspecified amount, and an award of costs and expenses, including counsel fees. We intend to defend vigorously against these actions.

**Other legal proceedings**

A judicial investigation is currently being conducted by a judge of the *Tribunal de Grande Instance* (trial court) of Paris regarding allegations of an illegal payment approved by former senior officers of the company to government officials in connection with the transfer in 1994 of the headquarters of the Transport Sector. ALSTOM has elected to join the civil proceedings in order to seek recovery of any such payment.

Senior officials of ALSTOM have been interviewed by inspectors of the French *Commission des opérations de bourse* (the COB ) in connection with the COB s investigation regarding public disclosures by the Group and trading of ALSTOM shares since 30 December 2001. ALSTOM is co-operating fully with the COB in these inquiries. As of the date hereof, it is not possible to predict

the outcome of such investigation with any certainty.

**ACCOUNTS OF THE PARENT COMPANY, ALSTOM**

ALSTOM, the parent company, has no industrial or commercial activity and, consequently its revenue includes mainly fees invoiced to its subsidiaries for the use of the ALSTOM name, dividends and other financial income.

Income amounted to 43 million for the first half of fiscal year 2004 and 74 million for the first half of fiscal year 2003.

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**1.1.2. Interim Consolidated Financial Statements as of 30 September 2003**

**INTERIM CONSOLIDATED INCOME STATEMENTS**

| | Note | Half-year ended 30 September | | Year ended 31 March |
|---|---|---|---|---|
| | | **2002** | **2003** | **2003** |
| | | | ***(in € million)*** | |
| **SALES** | (16) | **10,769** | **8,854** | **21,351** |
| *Of which products* | | 8,514 | 6,602 | 16,374 |
| *Of which services* | | 2,255 | 2,252 | 4,977 |
| Cost of sales | | (8,905) | (7,577) | (19,187) |
| *Of which products* | | (7,182) | (5,805) | (15,504) |
| *Of which services* | | (1,723) | (1,772) | (3,683) |
| Selling expenses | | (515) | (435) | (970) |
| Research and development expenses | | (319) | (239) | (622) |
| Administrative expenses | | (488) | (471) | (1,079) |
| **OPERATING INCOME** | (16) | **542** | **132** | **(507)** |
| Other income (expense), net | (4) | (188) | (397) | (555) |
| Other intangible assets amortisation | (8) | (32) | (31) | (67) |
| **EARNINGS BEFORE INTEREST AND TAX** | (16) | **322** | **(296)** | **(1,129)** |
| Financial income (expense), net | (5) | (128) | (220) | (270) |
| **PRE-TAX INCOME (LOSS)** | | **194** | **(516)** | **(1,399)** |
| Income tax (charge) credit | (6) | (36) | 29 | 263 |
| Share in net income (loss) of equity investments | | 2 | | 3 |
| Minority interests | | (5) | (2) | (15) |
| Goodwill amortisation | (7) | (144) | (135) | (284) |
| **NET INCOME (LOSS)** | | **11** | **(624)** | **(1,432)** |
| Earnings per share in Euro | | | | |
| Basic | | | (2.2) | (5.4) |
| Diluted | | | (2.2) | (5.4) |

The accompanying Notes are an integral part of these Interim Consolidated Financial Statements.

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**INTERIM CONSOLIDATED BALANCE SHEETS**

| | Note | At 31 March 2003 | At 30 September 2003 |
|---|---|---|---|
| | | *(in  million)* | |
| **ASSETS** | | | |
| Goodwill, net | (7) | 4,440 | 3,931 |
| Other intangible assets, net | (8) | 1,168 | 974 |
| Property, plant and equipment, net | | 2,331 | 1,940 |
| Investments in equity method investees and other investments, net | | 245 | 249 |
| Other fixed assets, net | (9) | 1,294 | 1,239 |
| **Tangible, intangible and other fixed assets, net** | | **9,478** | **8,333** |
| **Deferred taxes** | (6) | **1,831** | **1,884** |
| Inventories and contracts in progress, net | | 4,608 | 3,744 |
| Trade receivables, net | (10) | 4,855 | 4,686 |
| Other accounts receivables, net | | 2,265 | 2,602 |
| **Current assets** | | **11,728** | **11,032** |
| Short term investments | | 142 | 98 |
| Cash and cash equivalents | | 1,628 | 1,671 |
| **Short term investments and cash and cash equivalents** | | **1,770** | **1,769** |
| **TOTAL ASSETS** | | **24,807** | **23,018** |
| **LIABILITIES** | | | |
| **Shareholders equity** | | **758** | **183** |
| **Minority interests** | | **95** | **94** |
| **Provisions for risks and charges** | (12) | **3,698** | **3,500** |
| **Accrued pension and retirement benefits** | (13) | **972** | **937** |
| **Financial debt** | (14) | **6,331** | **6,076** |
| **Deferred taxes** | (6) | **37** | **55** |
| Customers deposits and advances | (15) | 3,541 | 3,085 |
| Trade payables | | 4,629 | 4,132 |
| Accrued contract costs, other payables and accrued expenses | | 4,746 | 4,956 |
| **Current liabilities** | | **12,916** | **12,173** |
| **TOTAL LIABILITIES** | | **24,807** | **23,018** |
| Commitments and contingencies | (17)&(18) | | |

The accompanying Notes are an integral part of these Interim Consolidated Financial Statements.

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**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Year ended 31 March | Half year ended 30 September |
|---|---|---|
| | 2003 | 2003 |
| | ( in  million ) | |
| **Net income (loss)** | **(1,432)** | **(624)** |
| Minority interests | 15 | 2 |
| Depreciation and amortisation | 754 | 337 |
| Changes in provision for pension and retirement benefits, net | 22 | 47 |
| Net (gain) loss on disposal of fixed assets and investments | (19) | (91) |
| Share in net income (loss) of equity investees (net of dividends received) | (3) | |
| Changes in deferred tax | (424) | (77) |
| **Net income after elimination of non cash items** | **(1,087)** | **(406)** |
| Decrease (increase) in inventories and contracts in progress, net | 415 | 319 |
| Decrease (increase) in trade and other receivables, net | 650 | (355) |
| Increase (decrease) in sale of trade receivables, net | (661) | (144) |
| Increase (decrease) in contract related provisions, | 160 | (262) |
| Increase (decrease) in other provisions, | (49) | 33 |
| Increase (decrease) in restructuring provisions, | (29) | 137 |
| Increase (decrease) in customers deposits and advances | (98) | (221) |
| Increase (decrease) in trade and other payables, accrued contract costs and accrued expenses | 162 | 168 |
| **Changes in net working capital [(2)]** | **550** | **(325)** |
| **Net cash provided by (used in) operating activities** | **(537)** | **(731)** |
| Proceeds from disposals of property, plant and equipment | 252 | 166 |
| Capital expenditures | (410) | (105) |
| Decrease(increase) in other fixed assets, net | (55) | 145 |
| Cash expenditures for acquisition of investments, net of net cash acquired | (166) | (3) |
| Cash proceeds from sale of investments, net of net cash sold | 38 | 772 |
| **Net cash provided by (used in) investing activities** | **(341)** | **975** |
| Capital increase | 622 | |
| Dividends paid including minorities | (1) | (2) |
| **Net cash provided by (used in) financing activities** | **621** | **(2)** |
| Net effect of exchange rate | (41) | 15 |
| Other changes [(3)] | (464) | (3) |
| **Decrease (increase) in net debt** | **(762)** | **254** |
| **Net debt at the beginning of the period [(1)]** | **(3,799)** | **(4,561)** |
| **Net debt at the end of the period [(1)]** | **(4,561)** | **(4,307)** |

| | | |
|---|---|---|
| Cash paid for income taxes | 70 | 50 |
| Cash paid for net interest | 172 | 129 |

(1) Net debt includes short-term investments, cash and cash equivalents net of financial debt.

(2) See Note 11

(3) Included in year ended 31 March 2003 is the reclassification of redeemable preference shares of a subsidiary and undated subordinated notes totalling 455 million.

The accompanying Notes are an integral part of these Interim Consolidated Financial Statements.

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**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY**

| | Number of outstanding shares | Capital | Additional Paid-in Capital | Retained Earnings | Cumulated Translation Adjustment | Shareholders Equity |
|---|---|---|---|---|---|---|
| | | | *( in € million )* | | | |
| **At 1 April 2002** | **215,387,459** | **1,292** | **85** | **516** | **(141)** | **1,752** |
| Capital increase | 66,273,064 | 398 | 224 | | | 622 |
| Changes in cumulative translation adjustments | | | | | (184) | (184) |
| Net income | | | | (1,432) | | (1,432) |
| **At 31 March 2003** | **281,660,523** | **1,690** | **309** | **(916)** | **(325)** | **758** |
| Capital decrease | | (1,338) | (309) | 1,647 | | |
| Changes in cumulative translation adjustments | | | | | 49 | 49 |
| Net income | | | | (624) | | (624) |
| **At 30 September 2003** | **281,660,523** | **352** | | **107** | **(276)** | **183** |

In July 2002, an issue of shares was made and 66,273,064 shares having a par value of € 6 were subscribed. Related costs net of tax of € 15 million were charged against additional paid-in of € 239 million.

At 31 March 2003, the issued paid-up share capital of the parent company, ALSTOM, amounted to €1,689,963,138 and was divided into 281,660,523 shares having a par value of €6.

At the Ordinary General Shareholders Meeting held on 2 July 2003, it was decided that no dividend be paid.

The ALSTOM shareholders equity at 31 march 2003 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, at the General Shareholders Meeting held on 2 July 2003, to decide not to liquidate the company by anticipation. Further, it was decided at such General Shareholders Meeting, to reduce ALSTOM s share capital, due to losses, from € 1,689,963,138 to € 352,075,653.75. This reduction in the share capital was implemented through the reduction in the nominal value of ALSTOM ordinary share from € 6 per share to € 1.25 per share.

At 30 September 2003, the share capital amounted to € 352,075,653.75 consisting of 281,660,523 shares with a nominal value of € 1.25 per share. All of the shares are fully paid up.

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## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 Description of business and basis of preparation

#### *(a) Description of business*

ALSTOM (the Group) is a provider of energy and transport infrastructure. The energy market is served through activities in the fields of power generation and power transmission and distribution, power conversion, and the transport market through rail and marine activities. A range of components, systems and services is offered by the Group covering design, manufacture, commissioning, long-term maintenance, system integration, management of turnkey projects and applications of advanced technologies. The Group s business is not materially affected by seasonality.

#### *(b) Basis of preparation*

The interim consolidated financial statements for the six months ended 30 September 2003 have been prepared on the basis of the accounting policies and methods of computation as set out in Note 2.

The Group in preparing its interim consolidated financial statements has assumed the successful implementation of the financing package set out in Note 19.

### Note 2 Summary of accounting policies

The Consolidated Financial Statements of the Group are prepared in accordance with French Generally Accepted Accounting Principles and Règlements 99-02 & 00-06 of the Comité de Réglementation Comptable (French consolidation methodology). Benchmark treatments are generally used. Capital lease arrangements and long term rentals are not capitalised. If capital leases had been capitalised, the impact would have been an increase of property plant and equipment net of  212 million and  244 million, an increase of financial debt of  216 million and  246 million and a decrease of shareholder s equity of  4 million and  2 million, at 31 March 2003 and 30 September 2003 respectively. If long term rentals had been consolidated it would have increased long-term lease receivable and long-term lease payable of 667 million and  655 million at 31 March 2003 and 30 September 2003, respectively (see Note 17).

#### *(a) Consolidation methods*

Investments over which the Group has direct or indirect control of more than 50% of the outstanding voting shares, or over which it 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. Joint ventures in companies in which the Group has joint control 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 which the Group has an equity interest of 20% to 50% and over which the Group exercises significant influence, but not control, are accounted for under the equity method.

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.

Inter company balances and transactions are eliminated on consolidation.

A list of the Group s major consolidated businesses and investees and the applicable method of consolidation is provided in Note 21.

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***(b) Use of estimates***

The preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent gains and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Management reviews estimates on an ongoing basis using currently available information. Costs to date are considered, as are estimated costs to complete and estimated future costs of warranty obligations. Estimates of future cost reflect management s current best estimate of the probable outflow of financial resources that will be required to settle contractual obligations. The assumptions to calculate present 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. Changes in facts and circumstances may result in actual financial consequences different from the estimates.

***(c) Revenue and cost recognition***

Revenue on contracts which are of less than one year duration, substantially the sale of manufactured products, is recognised upon transfer of title, including the risks and rewards of ownership, which generally occurs on delivery to the customer.

Revenue on construction type contracts of more than one year, long term contracts, is recognised on the percentage of completion method, measured either by segmented portions of the contract contract milestones or costs incurred to date compared to estimated total costs.

Claims are recognised as revenue when it is probable that the claim will result in additional revenue and the amount can be reasonably estimated, which generally occurs upon agreement by the customer. Government subsidies relating to the shipbuilding sector are added to the related contract value and are recognised as revenue using the percentage of completion method.

For long term service contracts, revenues are generally recognised on a straight line basis over the term of the contract.

Total estimated costs at completion include direct (such as material and labour) and indirect contract costs incurred to date as well as estimated similar costs to complete, including warranty accruals and costs to settle claims or disputes that are considered probable. Selling and administrative expenses are charged to expense as incurred. As a result of contract review, accruals for losses on contracts and other contract related provisions are recorded as soon as they are probable in the line item Cost of sales in the Consolidated Income Statement. Adjustments to contract estimates resulting from job conditions and performance, as well as changes in estimated profitability, are recognised in Cost of Sales as soon as they occur.

Cost of sales is computed on the basis of percentage of completion applied to total estimated costs. The excess of that amount over the cost of sales reported in prior periods is the cost of revenues for the period. Contract completion accruals are recorded for future expenses to be incurred in connection with the completion of contracts or of identifiable portions of contracts. Warranty provisions are estimated on the basis of contractual agreement and available statistical data.

***(d) Translation of financial statements denominated in foreign currencies***

The functional currency of the Group s foreign subsidiaries is the applicable local currency. 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.

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***(e) Foreign currency transactions***

Foreign currency transactions are translated into local currency at the rate of exchange applicable to the transaction (market rate or forward hedge rate). At period end, foreign currency assets and liabilities to be settled are translated into local currency at the rate of exchange prevailing at that date or the forward hedge rate. Resulting exchange rate differences are included in the Consolidated Income Statement.

***(f) Financial instruments***

The Group operates internationally giving rise to exposure to market risks and changes in interest rates and foreign exchange rates. Financial instruments are utilised by the Group to reduce those risks. The Group s policy is to hedge currency exposures by holding or issuing financial instruments.

The Group enters into various interest rate swaps, forward rate agreements ( FRA ) and floors to manage its interest rate exposures. Net interest is accrued as either interest receivable or payable with the offset recorded in financial interest.

The Group enters into forward foreign exchange contracts to hedge foreign currency transactions. Realised and unrealised gains and losses on these instruments are deferred and recorded in the carrying amount of the related hedged asset, liability or firm commitment.

The Group also uses export insurance contracts to hedge its currency exposure on certain long-term contracts during the open bid time as well as when the commercial contract is signed. If the Group is not successful in signing the contract, the Group incurs no additional liability towards the insurance company except the prepaid premium. As a consequence, during the open bid period, these insurance contracts are accounted for as such, the premium being expensed when incurred. When the contract is signed, the insurance contract is accounted for as described above for forward foreign exchange contracts.

In addition, the Group may enter into derivatives in order to optimise the use of some of its existing assets. Such a decision is taken on a case by case basis and is subject to approval by the management.

***(g) Goodwill***

Goodwill represents the excess of the purchase price over the fair value of the assets and liabilities acquired in a business combination. Initial estimates of fair values are finalised at the end of the financial year following the year of acquisition. Thereafter, releases of unrequired provisions for risks and charges resulting from the purchase price allocation are applied to goodwill. Goodwill is 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.

***(h) Other intangible assets***

The Group recognises other intangible assets such as technology, licensing agreements, installed bases of customers, etc. 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.

***(i) Impairment***

At the balance sheet date, whenever events or changes in markets indicate a potential impairment to goodwill, other intangible assets, property, plant and equipment and deferred tax assets, the carrying amount of such assets is reduced to their estimated recoverable value. Impairment tests are performed annually.

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***(j) Property, plant and equipment***

Property, plant and equipment are recorded at historical cost to the Group. Depreciation is computed using the straight-line method over the following estimated useful lives :

| | Estimated useful life in years |
|---|---|
| Buildings | 25 |
| Machinery and equipment | 10 |
| Tools, furniture, fixtures and others | 3-7 |

Assets financed through capital lease are not capitalised (see Note 17 (b)).

***(k) Other investments***

Other investments are recorded at the lower of historical cost or net realisable value, assessed on an individual investment basis. The net realisable value is calculated using the following parameters : equity value, profitability and expected cash flow from the investment.

***(l) Other fixed assets***

Other fixed assets are recorded at the lower of historical cost or net realisable value, assessed on an individual investment basis.

***(m) Inventories and contracts in progress***

Raw materials and supplies, work and contracts 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 includes costs of acquiring inventories and bringing them to their existing location and condition. Finished goods and work and contract in progress inventory includes an allocation of applicable manufacturing overheads.

***(n) Short-term investments***

Short-term investments include debt and equity securities and deposits with an initial maturity greater than three months but available for sale. Short-term investments are recorded at the lower of cost or market value, on a line by line basis.

***(o) Cash and cash equivalents***

Cash and cash equivalents consist of cash and highly liquid investments with an initial maturity of less than three months.

***(p) Deferred taxation***

Deferred taxes are calculated for each taxable entity for temporary differences arising between the tax value and book value of assets and liabilities. Deferred tax assets and liabilities are recognised where timing differences are expected to reverse in future years. Deferred tax assets are recorded up to their expected recoverable amount. Deferred tax amounts are adjusted for changes in the applicable tax rate upon enactment.

Deferred tax assets and liabilities are netted first by legal entity and then by tax grouping.

No provision is made for income taxes on accumulated earnings of consolidated businesses or equity method investees for whom no distribution is planned.

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***(q) Customer deposits and advances***

Customer deposits and advances are shown net, and represent amounts received from customers in advance of work being undertaken on their behalf. Where trading has taken place under the long term contract trading rules, but provisional acceptance of the contract has not taken place, the related customer advance is shown as a deduction from the related receivables.

If any balance of customer deposits and advances is still outstanding and where work is undertaken on behalf of customers before sale, the related customer advance, termed a progress payment is deducted from Inventories and Contracts in Progress on a contract by contract basis.

***(r) Provisions for risks and charges***

A provision is recognised when the Group has a present legal or constructive obligation of uncertain timing or amount as a result of a past event and it is probable that an outflow of economic resources will be required to settle the obligation and such outflow can be reliably estimated.

Provisions for warranties are recognised based on contract terms. Warranty periods may extend up to five years. The provisions are based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. Provisions for contract losses are recorded at the point where the loss is first determined. Provisions are recorded for all penalties and claims based on management s assessment of the likely outcome.

***(s) Stock options***

Stock options are not recorded by the Group at the date of grant. However, upon exercise of stock options, the Group records the issuance of the common shares as an equity transaction based on the amount of cash received from the holders.

***(t) Research and development***

Internally generated research and development costs are expensed as incurred.

***(u) Employee benefits***

The estimated cost of providing benefits to employees is accrued during the years in which the employees render services.

For single employer defined benefit plans, the fair value of plan assets is assessed annually and actuarial assumptions are used to determine cost and benefit obligations. Liabilities and prepaid expenses are accrued over the estimated term of service of employees using actuarial methods. Experience gains and losses, as well as changes in actuarial assumptions and plan assets and provisions are amortised over the average future service period of employees.

For defined contribution plans and multi-employer pension plans, expenses are recorded as incurred.

***(v) Restructuring***

Restructuring costs are accrued when management announces the reduction or closure of facilities, or a program to reduce the workforce and when related costs are precisely determined. Such costs include employees severance and termination benefits, estimated facility closing costs and write-off of assets.

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***(w) Financial income (expense)***

Financial income (expense) is principally comprised of interest payable on borrowings, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

Dividend income is recognised in the income statement on the date that the dividend is declared.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs.

***(x) Earnings per share***

Basic Earnings per share are computed by dividing the period net income (loss) by the weighted average number of outstanding shares during the financial year.

Diluted earnings per share are computed by dividing the period net income (loss) by the weighted average number of shares outstanding plus the effect of any dilutive instruments.

For the diluted earnings per share calculation, Net income (loss) is not adjusted as the Group has no interest bearing dilutive instruments.

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

| | At 30 September 2002 | | At 31 March 2003 | | At 30 September 2003 | |
|---|---|---|---|---|---|---|
| ***€ for 1 monetary unit*** | **Average** | **Closing** | **Average** | **Closing** | **Average** | **Closing** |
| British pound | 1.579384 | 1.588562 | 1.549571 | 1.450116 | 1.427823 | 1.431434 |
| Swiss franc | 0.683094 | 0.684416 | 0.682536 | 0.677323 | 0.650886 | 0.649182 |
| US dollar | 1.038550 | 1.014199 | 0.997990 | 0.917852 | 0.879388 | 0.858222 |
| Canadian dollar | 0.668892 | 0.642426 | 0.646284 | 0.623558 | 0.634476 | 0.636254 |
| Australian dollar | 0.573345 | 0.552456 | 0.563472 | 0.553220 | 0.573704 | 0.584761 |

**Note 3 Changes in consolidated companies**

***(1) Disposal of Industrial Turbine businesses***

In April 2003, the Group signed binding agreements to sell its small gas turbines business and medium-sized gas turbines and industrial steam turbines businesses in two transactions.

The first transaction covers the small gas turbines business, and the second transaction covers medium-sized gas turbines and industrial steam turbines businesses.

On 30 April 2003, the closing of the sale of the small gas turbines business was announced. On 1 August 2003 completion of the major part of the disposal of the medium gas turbines and industrial steam turbines businesses was announced following approval from both the European Commission and US merger control authorities.

Total proceeds are  967 million (subject to closing price adjustments) of which  125 million is held in escrow.

These businesses have been de-consolidated at the respective dates of each transaction.

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***(2) Disposal of Transmission & Distribution sector (Excluding the Power Conversion Business)***

On 25 September 2003, the Group concluded an agreement to sell its Transmission & Distribution sector excluding the power conversion business to Areva with closing expected in early January 2004. The sold businesses will be deconsolidated from this date. Proceeds are  950 million, subject to closing price adjustments.

**Note 4 Other Income (Expense), net**

| | Half-year ended 30 September | | Year ended 31 March |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | *(in  million)* | | |
| Net gain (loss) on disposal of fixed assets [1] | (1) | 14 | 29 |
| Net gain (loss) on disposal of investments [2] | (9) | 35 | (35) |
| Restructuring costs [3] | (80) | (276) | (268) |
| Employees profit sharing | (8) | (9) | (18) |
| Pension costs [4] | (97) | (138) | (214) |
| Others, net | 7 | (23) | (49) |
| **Other income (expense), net** | **(188)** | **(397)** | **(555)** |

(1) In the half-year ended 30 September 2003 and in the year ended 31 march 2003 it mainly corresponds to the net gain on the disposal of real state portfolio in Western Europe.

(2) In the year ended 31 March 2003, it mainly corresponds to the net losses on the disposal of South Africa operations and Alstom Power Insurance Ltd.

In the Half Year ended 30 September 2003 it corresponds to the net gain on the disposal of the Industrial Turbine businesses (See Note 3). The Group has disposed of its Industrial Turbines businesses in a two part transaction with effect from, respectively, 30 April 2003 and 31 July 2003. As a result, the consolidation packages prepared for each unit disposed of for the last month of activity prior to sale were prepared under the control of the acquirer. The Group made certain adjustments to the consolidation packages received to ensure conformity with Group accounting principles and judgements, consistently applied. These adjustments resulted in no impact on Earnings Before Interest and Taxation on or Net income, but did result in a reclassification reducing the gain on disposal included within other income (expense), net and increasing operating income by  67 million. The quantum of this reclassification remains subject to subsequent confirmation. However, the Group considers the amount of  67 million to be a best estimate of the adjustment required.

(3) See Note 12 Provisions for risks and charges

(4) See Note 13 Accrued pension and retirement obligations

**Note 5 Financial Income (Expense), net**

| | Half-year ended 30 September | | Year ended 31 March |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | *(in  million)* | | |
| **Net interest income (expense)** | **(84)** | **(136)** | **(182)** |
| Securitisation expenses | (56) | (16) | (82) |
| Foreign currency gain (loss) (1) | 35 | (20) | 55 |
| Other financial income (expense) (2) | (23) | (48) | (61) |
| **Financial income (expense)** | **(128)** | **(220)** | **(270)** |

(1) The Foreign currency gain in the half-year ended 30 September 2002 and in the year ended 31 March 2003 mainly results from the unwinding of forward sale contracts of US dollars against Euros following reassessment of the financing structure in USA.

(2) Other financial income (expenses), net included fees paid on guarantees, syndicated loans and other financing facilities of  18 million and  57 million for the half-year ended 30 September 2002 and 30 September 2003 respectively and  41 million for the year ended 31 March 2003.

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**Note 6 Income tax**

***(a) Analysis of income tax charge***

| | Half-year ended 30 September | | Year ended 31 March |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | | *(in  million)* | |
| Current income tax (charge) | (51) | (48) | (153) |
| Deferred tax income (charge) | 15 | 77 | 416 |
| **Income tax charge** | **(36)** | **29** | **263** |
| **Effective tax rate** | **18.4%** | **5.6%** | **18.8%** |

***(b) Effective income tax rate***

The effective income tax rate can be analysed as follows :

| | Half-year ended 30 September 2003 |
|---|---|
| **Pre-tax income (loss)** | **(516)** |
| Statutory income tax rate of the parent company | 35.43% |
| **Expected tax credit (charge)** | **183** |
| Impact of : | |
| disposals | (78) |
| (non recognition) recognition of tax loss carryforwards | (59) |
| net change in estimate of tax liabilities | 5 |
| intangible assets amortisation | (10) |
| other permanent differences | (11) |
| non recoverable withholding taxes, etc | (9) |
| differences in rates | 8 |
| **Income tax credit (charge)** | **29** |
| **Effective tax rate** | **5.6%** |

***(c) Deferred tax assets, net***

| | At 31 March 2003 | At 30 September 2003 |
|---|---|---|
| | *(in € million)* | |
| Tax loss carryforwards, net of valuation allowance | 1,390 | 1,223 |
| Provisions and other expenses not currently deductible | 535 | 497 |
| Others | 665 | 791 |
| **Gross deferred tax assets** | **2,590** | **2,511** |
| **Netting by tax grouping or by legal entity** | **(759)** | **(627)** |
| **Deferred tax assets after netting** | **1,831** | **1,884** |
| **Deferred tax liabilities after netting** | **(37)** | **(55)** |
| **Deferred tax assets, net** | **1,794** | **1,829** |

On the basis of the Group's business plan, the Group has the capacity to generate sufficient levels of taxable profit in the coming years to recover its net tax loss carry forward in general within five years.

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**Note 7 Goodwill, net**

| | At 31 March 2003 [2] | Acquisitions/ Disposals | Amortisation | Translation adjustments and other changes | At 30 September 2003 |
|---|---|---|---|---|---|
| | | | *(in  million)* | | |
| Power Environment | 755 | | (22) | | 733 |
| Power Turbo-Systems | 115 | | (4) | | 111 |
| Power Service [1] | 2,166 | (47) | (64) | | 2,055 |
| Power Industrial Turbines [1] | 329 | (324) | (5) | | |
| Transmission & Distribution | 515 | | (22) | (1) | 492 |
| Transport | 558 | | (18) | (2) | 538 |
| Marine | 2 | | | | 2 |
| **Goodwill, net** | **4,440** | **(371)** | **(135)** | **(3)** | **3,931** |

(1) On 28 April 2003, the Group announced the completion of the disposal of its small gas turbine business and on 1 August 2003, the completion of the disposal of the medium gas turbines and industrial steam turbines business was announced, both to Siemens. The related Service activities were sold in the same transactions. The result of these transactions is a decrease of Goodwill of  371 million (see Note 3).

(2) From 1 April 2003, the former Power Sector was reorganised into three new sectors, Power Turbo-Systems, Power Service and Power Environment (See Note 16). Consequently, the Goodwill, net allocated to the former Sector is now presented to reflect the current reporting structure.

At 31 March 2003, the Group requested a third party valuer to provide an independent report as part of its impairment test, performed annually, on goodwill and other intangible assets. This valuation focused primarily but not exclusively on the two Sectors (Power and Transport) which account for the majority of the Group s goodwill and other intangibles.

The valuation in use was determined primarily by focusing on the discounted cash flow methodology which captured the potential of the net asset base to generate future profits and cash flow and was based on the following factors :

The Group s internal three year Business Plan prepared as part of its annual budget exercise,

Extrapolation of the three year Business Plan over 10 years,

Terminal value at the end of the ten year period representing approximately 55% of total enterprise value.

The Group s Weighted Average Cost of Capital, post-tax, of 10.5 % to 11.5 %.

The valuation supported the Group s opinion that its goodwill and other intangible assets were not impaired on a reporting unit basis.

The review made during the summer of the business plan has not caused the Group to conclude that triggering events have occurred that would lead to impairment testing at 30 September 2003.

A similar independent third party valuation will be requested at 31 March 2004.

**Note 8 Other intangible assets, net**

| | At 31 March 2003 | Acquisitions / Amortisation | Disposals | Translation adjustments and other changes | At 30 September 2003 |
|---|---|---|---|---|---|
| | | | *(in  million)* | | |
| Gross value | 1,354 | | (193) | | 1,161 |
| Amortisation | (186) | (31) | 30 | | (187) |
| **Other intangible assets, net** | **1,168** | **(31)** | **(163)** | | **974** |

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Other intangible assets mainly result from the allocation of the purchase price following the acquisition of ABB s 50% shareholding in Power. It includes technology, an installed base of customers and licensing agreements.

The decrease of  163 million results from the disposal of the small and medium gas turbine business and the industrial steam turbine business (see Note 3).

**Note 9 Other fixed assets, net**

| | At 31 March 2003 | At 30 September 2003 |
|---|---|---|
| | *(in  million)* | |
| Long term loans, deposits and retentions (1) | 814 | 796 |
| Prepaid assets pensions (see Note 13 ) | 397 | 363 |
| Others | 83 | 80 |
| **Other fixed assets, net** | **1,294** | **1,239** |

(1) Include loans and cash deposits in respect of Marine vendor financing for total amounts of  510 and  326 million at 31 March 2003 and 30 September 2003 respectively (see Note 17 (a)(2)). At 30 September 2003, it also includes  125 million held in escrow following the disposal of the small and medium gas turbine businesses and the industrial steam turbines business.

**Note 10 Sale of trade receivables**

The following table shows net proceeds from sale of trade receivables:

| | At 31 March 2003 | At 30 September 2003 |
|---|---|---|
| | *(in  million)* | |
| Trade receivables sold | 357 | 212 |
| Retained interests | | |
| **Net cash proceeds from securitisation of trade receivables** | **357** | **212** |

The Group sold, irrevocably and without recourse, trade receivables to third parties. The Group generally continues to service, administer, and collect the receivables on behalf of the purchasers.

**Note 11 Changes in net working capital**

| | At 31 March 2003 | Cash flow | Translation adjustments | Changes in scope and others | At 30 September 2003 |
|---|---|---|---|---|---|
| | | | *(in € million)* | | |
| Inventories and contract in progress, net | 4,608 | (319) | (83) | (462) | 3,744 |
| Trade and other receivables, net [(1)] | 7,477 | 355 | (75) | (258) | 7,499 |
| Sale of trade receivables, net | (357) | 144 | 1 | | (212) |
| Contract related provisions | (3,264) | 262 | 84 | 24 | (2,894) |
| Other provisions | (296) | (33) | (1) | (12) | (342) |
| Restructuring provisions | (138) | (137) | 1 | 12 | (262) |
| Customers deposits and advances | (3,541) | 221 | 54 | 181 | (3,085) |
| Trade and other payables | (9,375) | (168) | 134 | 321 | (9,088) |
| **Net working capital** | **(4,886)** | **325** | **115** | **(194)** | **(4,640)** |

(1) Before impact of net proceeds from sale of trade receivables.

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**Note 12 Provisions for risks and charges**

| | At 31 March 2003 | Additions | Releases | Applied *(in  million)* | Translation adjustments and other | At 30 September 2003 |
|---|---|---|---|---|---|---|
| Warranties | 815 | 230 | (66) | (155) | (26) | 798 |
| Penalties and claims | 1,766 | 139 | (45) | (268) | (96) | 1,496 |
| Contract loss | 412 | 140 | (19) | (239) | 23 | 317 |
| Other risks on contracts | 271 | 92 | (37) | (34) | (7) | 285 |
| **Provisions on contracts** | **3,264** | **601** | **(167)** | **(696)** | **(106)** | **2,896** |
| **Restructuring** | **138** | **280** | **(4)** | **(139)** | **(13)** | **262** |
| **Other provisions** | **296** | **48** | **(2)** | **(13)** | **13** | **342** |
| **Total** | **3,698** | **929** | **(173)** | **(848)** | **(106)** | **3,500** |

**Provisions on contracts**

***GT24/GT26 heavy-duty gas turbines***

During the six-month period, the Group utilised provisions and accrued contract costs of  433 million and now retains, after exchange rate effects, 1,193 million as provisions and accrued contract costs in respect of these turbines. These amounts do not include  336 million of exposure for which the Group considers the risks mitigated by appropriate action plans.

***UK Trains***

At 30 September 2003, provisions and accrued contract cost of  64 million are retained in respect of UK train equipment supply contracts.

Actual costs incurred may exceed the amounts of provisions and accrued contract costs retained at 30 September 2003 as, among other items, the outcome of claims made by or against the Group are at such an early stage that no meaningful assessment of amounts which may become due to or by the Group is possible. On one of the UK contracts, the West Coast Main Line, any settlement will require the approval of the Strategic Rail Authority.

***Alstom Transportation Inc.***

During the first half year ended 30 September 2003 and after the General Meeting held on 2 July 2003, the Group identified and recognised additional provisions for contract losses following the re-estimation of costs to complete on several contracts in Alstom Transportation Inc. The additional provisions concern two North East Corridor (NEC) line contracts together with receivables write-down and accrued contract costs and other payables.

***NEC Contracts***

On the two NEC contracts, new build and maintenance, all parties agreed to enter a mediation phase starting June 2003. This mediation initially scheduled to end in late September 2003 has failed and the outcome of the litigation is difficult to predict at this stage. Major uncertainties remain on those contracts.

**Restructuring expenditures and provisions**

During the year ended 31 March 2003, restructuring expenditure amounted to  297 million. New plans were adopted during the period in Power, Transmission & Distribution and Transport, for which provisions have been recorded.

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During the six-month period ended 30 September 2003, restructuring expenditure amounted to  139 million. New plans were adopted and provisions were retained in all Sectors excluding Marine.

**Other provisions**

Other provisions include  140 million at March 2003 and September 2003 to cover Marine vendor financing exposure.

**Note 13 Accrued pension and retirement obligations**

The Group provides various types of retirement, termination benefits and post retirement benefits (including healthcare and medical cost) to its employees. The type of benefits offered to an individual employee is related to local legal requirements as well as the historical operating practices of the specific subsidiaries and involves the Group in the operation of or participation in various retirement plans.

These plans are either defined contributions or defined benefits.

For the defined contributions plans, the level of Group contribution to independent administered funds is fixed at a set percentage of employees pay. The pension costs charged in the Profit and Loss account represent contributions payable by the Group to the funds.

For the defined benefits plans, which the Group operates, benefits are based on employee pensionable remuneration and length of service. These are either externally funded or unfunded, with provisions maintained in the Group balance sheet. All are subject to regular actuarial review. Actuarial valuations are carried out by external actuaries employed by the Group using the projected unit method. The actuarial assumptions used to calculate the benefit obligation vary according to the country in which the plan is situated.

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 reviews annually plan assets and obligations. Differences between actual and expected returns on assets together with the effects of any changes in actuarial assumptions are assessed. If this difference exceeds 10% of the greater of the projected 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.

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

| | At 31 March 2003 | At 30 September 2003 |
|---|---|---|
| | *(in € million)* | |
| Accrued pension and retirement benefits | (972) | (937) |
| Prepaid assets pensions (see note 9) | 397 | 363 |
| **Net (accrued) prepaid benefit cost** | **(575)** | **(574)** |

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The components of the pension cost are the following:

| | Half-year ended 30 September | | Year ended 31 March |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | *(in € million)* | | |
| Service cost | 56 | 51 | 109 |
| Expected interest cost | 106 | 100 | 211 |
| Expected return on plan assets | (96) | (74) | (193) |
| Amortisation of unrecognised prior service cost | | | 2 |
| Amortisation of actuarial net loss (gain) | 13 | 32 | 17 |
| Curtailments / Settlements | | (32) | 9 |
| **Total defined benefits net periodic pension cost** | **79** | **77** | **155** |
| Other defined contributions and multi-employer | 18 | 29 | 59 |
| Curtailments/Settlements effects included in Net gain on disposal of investments (see Note 4) [(1)] | | 32 | |
| **Pension cost** | **97** | **138** | **214** |

(1) Disposal of small and medium gas turbines and industrial steam turbines businesses.

**Note 14 Financial Debt**

***(a) Analysis by nature***

| | At 31 March | At 30 September |
|---|---|---|
| | 2003 | 2003 |
| | *( in € million )* | |
| Redeemable preference shares [(1)] | 205 | 205 |
| Subordinated notes [(2)] | 250 | 250 |
| Bonds [(3)] | 1,200 | 1,200 |
| Syndicated loans [(4)] | 2,627 | 2,498 |
| Bilateral loans | 358 | 358 |
| Bank overdraft and other facilities | 266 | 265 |
| Commercial paper [(5)] | 83 | 720 |
| Accrued interest | 50 | 58 |
| **Total** | **5,039** | **5,554** |
| Future receivables securitised, net [(6)] | 1,292 | 522 |
| **Financial debt** [(7)] | **6,331** | **6,076** |

| | | |
|---|---|---|
| Long-term | 3,647 | 2,390 |
| Short-term | 2,684 | 3,686 |

(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 have 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 at any time in case of certain limited specific pre identified events. Included in those events, are changes in tax laws and the issuance of new share capital.

In July 2002 an issue of shares was made triggering the contractual redemption of the preferred shares at 31 March 2006 at a price equal to par value together with dividends accrued, but not yet paid.

(2) The Group issued, on September 2000,  250 million Auction Rate Coupon Undated Subordinated Notes.

In March 2003, the terms of redemption were amended and the notes are redeemable in September 2006. They retain their subordinated nature and rank pari passu with holders of other subordinated indebtedness. Interest is payable quarterly, at variable rates based on EURIBOR.

(3) On July 26, 1999, the Group issued bonds for a principal amount of  650 million with a 7 year maturity, listed on the Paris and Luxembourg Stock Exchanges, bearing a 5 % coupon and to be redeemed at par on 26 July 2006.

On February 6, 2001, the Group issued bonds for a principal amount of  550 million with a 3 year maturity, listed on the Luxembourg Stock Exchange, bearing a 5.625 % coupon and to be redeemed at par on 6 February 2004.

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(4) Syndicated loans.

***Financial covenants applicable at 31 March 2003***

In March 2003 an agreement was signed with a consortium of banks, the lenders , to extend until 21 January 2004 the maturity of a revolving credit facility of € 400 million and two bilateral loans totalling € 75 million out of the € 358 million of bilateral loans at 31 March 2003 that were originally scheduled to mature in March and April 2003. A new bridge facility of € 600 million maturing 15 December 2003 was signed under similar terms and conditions.

Both extended and bridge facilities were subject to compliance with new financial covenants, which had also replaced former covenants in the two other existing syndicated revolving credit facilities (totalling at 31 March 2003 € 1, 250 million maturing in April 2004 and € 977 million of which € 255 million maturing in August 2003 and was paid and € 722 million will mature in August 2006).

The credit facilities of € 475 million and the € 600 million bridge facility were immediately repayable if the Group failed to meet its financial covenants in the coming financial year set out below :

Total debt contractually defined as the sum of the gross financial debt and the net amount of sale of trade receivables (see Note 10) should have been tested on the last day of each month until maturity and should have not exceeded at respectively 31 March 2003 and 30 September 2003 amounts of € 7,000 million[1] and € 6,800 million. At 31 March 2003, the total debt amounted to € 6,688 million.

Economic debt contractually defined as the sum of the net financial debt and the net amount of sale of trade receivables ( see Note 10) should have been tested on the last day of each month until maturity and should not have exceed at respectively 31 March 2003 and 30 September 2003 amounts of € 5,300 million, € 5,500 million. At 31 March 2003, the economic debt amounted to € 4,918 million.

Consolidated net worth contractually defined as the sum of shareholders equity and minority interests should not have been lower at respectively 31 March 2003 and 30 September 2003 than € 800 million and € 500 million. At 31 March 2003, the consolidated net worth amounted to € 853 million.

Financial covenants mentioned above also applied to the € 1,250 million and € 977 million syndicated revolving credit facilities. At 31 March 2004, total debt should not have exceeded € 4,800 million, Economic Debt should not have exceeded € 3,600 million and Consolidated Net worth should not have been lower than € 500 million. Interest cover, the ratio between EBITDA[2] and consolidated net financial expenses[3], should not have been lower than 1.8 at 31 March 2004. These financial covenants applied in the periods up to the last maturity in 2006.

***Financial covenants applicable at 30 September 2003***

As set out in Note 19, the Group reached an agreement with all interested parties on a new financing package (the Financing package ) which was announced on 22 September 2003.

The Financing package includes a Subordinated Debt Facility signed on 30 September 2003 with a syndicate of banks and financial institutions for an amount up to € 1,563 million to be made available as described below. This subordinated debt facility will be subject to new financial covenants amending the one applicable at 31 March 2003.

In addition, as part of the negotiation of the financing package it was agreed with all interested parties that the financial covenants described above applicable to the syndicated and bilateral loans did not apply at 30 September 2003.

***New financial covenants***

The 5 year subordinated debt facility negotiated as part of the financing package is divided between the term loan Part A of 1,200 million and the revolving credit Part B of 263 million, which may be subsequently increased by up to  100 million. The amount of this increase, if any, shall be up to the amount by which the guarantee of the signatory banks to that agreement in connection with the issuance of the ORAs will not be called into play, and the amount received by such banks resulting from the exercise of the purchase warrants in connection with the capital increase. No drawdown may occur under the subordinated debt facility unless, among other things, certain actions contemplated under the financing package agreement are completed.

The Part A will be available in two advances. The first advance being used, to the extent of the amounts made available by lenders other than CFDI (*Caisse Française de Développement Industriel*), to repay part of the outstanding balance of the 1,250 million Multicurrency Revolving Credit Agreement and, to the extent of the amounts made available by CFDI, towards the repayment or prepayment of 300 million of commercial paper (*billets de trésorerie*). The second advance of the Part A will not become available earlier than 30 January 2004 and will be used for the repayment and cancellation of the 550,million bonds in full. The Part B will be available from 20 January 2004 until 29 September 2008.

Under this agreement, upon the occurrence and continuation of events that qualify as events of default (or early repayment events), the lenders may cancel all commitments and declare all outstanding amounts to be immediately due and payable. For example, an event of default will be triggered if the Group fail to meet certain financial covenants, each as described below:

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1 Additional flexibility of  500 million is granted at the two month-ends following this date.

2 EBITDA is defined as Earnings Before Interest and Tax plus depreciation and amortisation as set out in Consolidated Statements of Cash flow less goodwill amortisation and less capital gain on disposal of investments (see Note 4).

3 Consolidated net financial expenses are defined as net interest income/expenses plus securitisation expenses (see Note 5).

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| Covenants | Minimum Interest Cover [(a)] | Minimum Consolidated net worth (including TSDDRA *) [(b)] | Maximum Total debt (excluding TSDDRA *) [(c)] | Maximum Net debt leverage [(d)] | Minimum EBITDA [(e)] |
|---|---|---|---|---|---|
| | | *(in  million)* | *(in  million)* | | *(in  million)* |
| December 2003 | | | 5,550 | | |
| March 2004 | | 1,400 | 4,750 | | 100 |
| June 2004 | | | 4,850 | | |
| September 2004 | | 1,000 | 4,800 | | 230 |
| December 2004 | | | 4,600 | | |
| March 2005 | 1.2 | 1,100 | 4,450 | 8.0 | |
| June 2005 | | | 4,650 | | |
| September 2005 | 1.6 | 850 | 4,650 | 7.5 | |
| December 2005 | | | 4,600 | | |
| March 2006 | 2.5 | 1,150 | 4,450 | 4.0 | |
| June 2006 | | | 4,400 | | |
| September 2006 | 2.5 | 1,150 | 4,400 | 3.6 | |
| December 2006 | | | 4,400 | | |
| March 2007 | 2.5 | 1,150 | 4,400 | 3.6 | |
| June 2007 | | | 4,400 | | |
| September 2007 | 2.5 | 1,150 | 4,400 | 3.6 | |
| December 2007 | | | 4,400 | | |
| March 2008 | 2.5 | 1,150 | 4,400 | 3.6 | |
| June 2008 | | | 4,400 | | |

* TSDDRA, or titres subordonnés à durée déterminée remboursables en actions .

(a) Ratio of EBITDA (see (e) below) to consolidated net financial expense (interest expense plus securitisation expenses less interest income).

(b) Sum of shareholders equity and minority interests (this covenant will not apply if and for as long as ALSTOM s long term unsecured, unsubordinated debt is assigned a credit rating of at least Baa3 by Moody s or BBB- by Standard & Poor s). For purposes of this financial covenant, consolidated net worth shall include the TSDDRA.

(c) Sum of the financial debt and the net amount of sale of trade receivables (this covenant will not apply if and for as long as ALSTOM s long term unsecured, unsubordinated debt is assigned a credit rating of at least Baa3 by Moody s or BBB- by Standard & Poor s). For purposes of this financial covenant, total debt is to be calculated excluding the TSDDRA.

(d) Ratio of total net debt (total financial debt less short term investments and cash and cash equivalents) to EBITDA (see (e) below). For purposes of this financial covenant, total financial debt is contractually to be calculated excluding the TSDDRA.

(e) Earnings Before Interest and Tax plus depreciation and amortisation as set out in Consolidated Statements of Cash Flow less goodwill amortisation and less capital gain on disposal of investments.

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

(6) The Group sold, in several transactions, the right to receive payment from certain customers for future receivables for a net amount of 1,292 million and  522 million at 31 March 2003 and 30 September 2003, respectively and is split as follows between the Marine and Transport Sectors :

Marine Sector :  581 million and  32 million at 31 March 2003 and 30 September 2003, respectively ;

Transport Sector :  711 million and  490 million at 31 March 2003 and 30 September 2003, respectively.

(7) The financial debt in Euro currency amounts to  6,205 million and  6,038 million at 31 March 2003 and 30 September 2003, respectively.

At 31 March 2003, in addition to drawn down amounts of syndicated loans, the Group has unused confirmed credit lines of  600 million resulting in a bridge credit facility which a group of banks executed in march 2003 and maturing 15 December 2003.

At 30 September 2003, out of the  900 million commercial paper facility obtained from the Caisse des dépôts et Consignations as part of the financing package in addition to the  300 million formerly obtained,  600 million remain unused.

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### *(b) Analysis by maturity and interest rate*

| | TOTAL | Short Term | Long Term | | | | | |
|---|---|---|---|---|---|---|---|---|
| | TOTAL | Within 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | Over 5 years | Average rate of interest-Long Term [1] |
| | | *(in € million)* | | | | *(in € million)* | | |
| Redeemable preference shares | 205 | | | 205 | | | | 5.2% |
| Subordinated notes | 250 | | | 250 | | | | 14.5% |
| Bonds | 1,200 | 550 | | 650 | | | | 4.5% |
| Syndicated loans | 2,498 | 1,777 | | 721 | | | | 4.1% |
| Bilateral loans | 358 | 75 | | 50 | 233 | | | 3.1% |
| Bank overdraft and other facilities | 265 | 223 | 16 | 3 | 3 | 3 | 17 | 4.3% |
| Commercial Paper | 720 | 720 | | | | | | 4.1% |
| Accrued interests | 58 | 58 | | | | | | |
| **Total** | **5,554** | **3,403** | **16** | **1,879** | **236** | **3** | **17** | |
| Future receivables securitised, net [2] | 522 | 283 | 235 | 4 | | | | 5.0% |
| **Financial debt** | **6,076** | **3,686** | **251** | **1,883** | **236** | **3** | **17** | |

(1) Including the effects of interest rate swaps associated with the underlying debt.

(2) The reimbursement of which will come from the direct payment of the customer to the investor to whom the Group sold the right to receive the payment.

| | At 30 September 2003 | |
|---|---|---|
| | Amount before Hedging | Amount after Hedging [1] |
| | *(in € million)* | |
| Financial debt at fixed rate | 1,320 | 967 |
| Financial debt at floating rate [2] | 4,756 | 5,109 |
| **Total** | **6,076** | **6,076** |

(1) After taking into accounts € 353 million of interest swaps.

(2) Floating rates are based on EURIBOR and LIBOR.

**Note 15 Queen Mary II Financing**

In the year ended 31 March 2003 the Group s marine subsidiary entered into a construction finance contract in respect of one ship presently under construction. Under the terms of this contract finance is made available against commitments to suppliers and to work in progress. The amounts financed are secured against the ship involved and the future receivable is collaterised by way of a guarantee of the prefinancement.

Cash received has firstly been applied against amounts included in trade receivables then against work in progress and where commitments made have not yet become work in progress cash is shown as part of customer deposits and advances.

At 31 March 2003 cash received on this pre-financing was €453 million, of which €434 million has been applied and the remaining balance of €19 million included in customer deposits and advances.

At 30 September 2003 cash received on this pre-financing was € 462 million fully applied against the corresponding trade receivables.

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**Note 16 Sector and geographic data**

***a) Sector data***

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

Starting from 1 April 2003, the Group is organised in six sectors:

The Former Power sector has been reorganised into three new sectors. Starting from 1 April 2003, the former Gas Turbine and Steam Power Plant segments have been merged into Power Turbo-systems, the Boiler & Environment and Hydro segment have been merged into Power Environment, the Customer Service segment has been renamed Power Service.

n ***Power Turbo-Systems Sector***

Power Turbo-Systems provides steam turbines, generators and power plant engineering and construction and mid-range gas turbines.

n ***Power Environment Sector***

Power Environment focus on emissions control equipment in the power generation, petrochemical and industrial markets; demand for upgrades and modernisation of existing power plants; hydro power plant refurbishment; small-scale hydro plants; and large-scale irrigation projects.

n ***Power Service Sector***

Power Service promotes the service activities relating to the Power Turbo Systems Sector and the Power Environment Sector and services to customers in all geographic markets. The Segment supplies the following products and services:

portfolio of services from spare parts and field services to full operation and maintenance packages;

refurbishment and modernisation of existing plants;

technical consultancy services;

tailor-made services and value packages (integrated solutions designed to achieve improved plant availability and reliability; improved plant efficiency and capacity; lower production costs and enhanced environmental compatability); and

new service product development.

n ***Transmission & Distribution Sector***

The Transmission & Distribution Sector offers equipment and customer support for the transmission and distribution of electrical energy.

From 1 April 2002 Power Conversion has been integrated within the Transmission & Distribution Sector and provides solutions for manufacturing processes and supplies high-performance products including motors, generators, propulsion systems for Marine and drives for a variety of industrial applications.

This sector, excluding Power Conversion, is presently in the process of being sold.

n ***Transport Sector***

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

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n *Marine Sector*

Marine designs and manufactures cruise and other speciality ships.

The composition of the Sectors may vary slightly from time to time. As part of any change in the composition of its sectors, Group management may also modify the manner in which it evaluates and measures profitability.

It evaluates internally their performance on Operating income and Free Cash Flow.

Some units, not material to the sector presentation, have been transferred between sectors. The revised segment composition has not been reflected on a retroactive basis as the Group determined it was not practicable to do so.

| | Half-year ended 30 September | | Year ended 31 March |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | | *(in € million)* | |
| **Orders received** | | | |
| Power Environment | 1,469 | 1,042 | 2,583 |
| Power Turbo Systems | 1,368 | 839 | 1,821 |
| Power Service | 1,686 | 1,368 | 2,934 |
| Power Industrial Turbines | 508 | 320 | 1,265 |
| Total Power | 5,031 | 3,569 | 8,603 |
| Transmission & Distribution | 2,067 | 1,801 | 3,731 |
| Transport | 3,300 | 1,672 | 6,412 |
| Marine | 26 | 340 | 163 |
| Corporate & others (1) | 113 | 57 | 214 |
| **TOTAL** | **10,537** | **7,439** | **19,123** |

| | Half-year ended 30 September | | Year ended 31 March |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | | *(in € million)* | |
| **Sales** | | | |
| Power Environment | 1,457 | 1,331 | 3,098 |
| Power Turbo Systems | 2,413 | 1,211 | 3,857 |
| Power Service | 1,350 | 1,361 | 2,678 |
| Power Industrial Turbines | 592 | 210 | 1,268 |
| Total Power | 5,812 | 4,113 | 10,901 |

| | | | |
|---|---|---|---|
| Transmission & Distribution | 1,778 | 1,562 | 3,605 |
| Transport | 2,339 | 2,297 | 5,072 |
| Marine | 725 | 822 | 1,568 |
| Corporate & others [(1)] | 115 | 60 | 205 |
| **TOTAL** | **10,769** | **8,854** | **21,351** |

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| | Half-year ended 30 September | | Year ended 31 March |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | | *(in € million)* | |
| **Operating income** | | | |
| Power Environment | n/a | 24 | 224 |
| Power Turbo Systems | n/a | (127) | (1,399) |
| Power Service | n/a | 196 | 403 |
| Power Industrial Turbines | n/a | 14 | 82 |
| Total Power | 270 | 107 | (690) |
| Transmission & Distribution | 110 | 84 | 227 |
| Transport | 90 | (37) | (24) |
| Marine | 16 | 4 | 24 |
| Corporate & others [(1)] | 56 | (26) | (44) |
| **TOTAL** | **542** | **132** | **(507)** |

| | **Half-year ended 30 September** | | **Year ended 31 March** |
|---|---|---|---|
| | | | **2003** |
| | 2002 | 2003 | |
| | | *(in € million)* | |
| **EBIT** | | | |
| Power Environment | n/a | (29) | 107 |
| Power Turbo Systems | n/a | (219) | (1,527) |
| Power Service | n/a | 123 | 304 |
| Power Industrial Turbines | n/a | 7 | 53 |
| Total Power | 133 | (118) | (1,063) |
| Transmission & Distribution | 61 | 6 | 81 |
| Transport | 43 | (150) | (113) |
| Marine | 15 | (2) | 12 |
| Corporate & others [(1)] | 70 | (32) | (46) |
| **TOTAL** | **322** | **(296)** | **(1,129)** |

| | Half-year ended At 30 September | | Year ended 31 March |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | | *(in € million)* | |
| **Capital employed** [(2)] | | | |
| Power Environment | n/a | 850 | n/a |
| Power Turbo Systems | n/a | (1,466) | n/a |
| Power Service | n/a | 2,295 | n/a |
| Power Industrial Turbines | n/a | | n/a |
| Total Power | 3,529 | 1,679 | 2,383 |
| Transmission & Distribution | 1,028 | 1,008 | 963 |

| | | | |
|---|---|---|---|
| Transport | 759 | 467 | 738 |
| Marine | (220) | (593) | (343) |
| Corporate & others [(1)] | 1,601 | 1,342 | 1,208 |
| **TOTAL** | **6,697** | **3,903** | **4,949** |

(1) Corporate & others include all units accounting for Corporate costs, the International Network and the overseas entities in Australia, New Zealand, South Africa (before disposal) and India, that are not allocated to Sectors.

(2) Capital employed is defined as the closing position of the total of tangible, intangible and other fixed assets net, current assets (excluding net amount of securitisation of existing receivables) less current liabilities and provisions for risks and charges.

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***b) Geographic data***

The table below set forth the geographic breakdown of Sales by country of destination

| | Half-year ended 30 September | | Year ended 31 March |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | | *(in € million)* | |
| **Sales** | | | |
| Europe | 4,303 | 4,160 | 9,219 |
| North America | 2,673 | 1,662 | 4,719 |
| South & Central America | 775 | 489 | 1,534 |
| Asia / Pacific | 1,833 | 1,875 | 3,727 |
| Middle East / Africa | 1,185 | 668 | 2,152 |
| **TOTAL** | **10,769** | **8,854** | **21,351** |

The table below set forth the geographic breakdown of Sales by country of origin

| | Half-year ended 30 September | | Year ended 31 March |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | | *(in € million)* | |
| **Sales** | | | |
| Europe | 7,167 | 6,521 | 14,762 |
| North America | 2,207 | 1,332 | 3,935 |
| South & Central America | 330 | 229 | 601 |
| Asia / Pacific | 905 | 703 | 1,833 |
| Middle East / Africa | 160 | 69 | 220 |
| **TOTAL** | **10,769** | **8,854** | **21,351** |

**Note 17 Off balance sheet commitments and other obligations**

***a) Off balance sheet commitments***

| | At 31 March 2003 | At 30 September 2003 |
|---|---|---|
| | *(in € million)* | |
| Guarantees related to contracts [1] | 9,465 | 8,206 |
| Guarantees related to Vendor financing [2] | 749 | 643 |
| Discounted notes receivable | 11 | 9 |

| | | |
|---|---|---|
| Commitments to purchase fixed assets | 7 | |
| Other guarantees | 94 | 49 |
| **Total** | **10,326** | **8,907** |

**(1)** **Guarantees related to contracts.**

In accordance with industry practice guarantees of performance under contracts with customers and under offers on tenders are given.

Such guarantees can, in the normal course, extend from the tender period until the final acceptance by the customer, and the end of the warranty period and may include guarantees on project completion, of contract specific defined performance criteria or plant availability.

The guarantees are provided by banks or surety companies by way of performance bonds, surety bonds and letters of credit and are normally for defined amounts and periods.

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The Group provides a counter indemnity to the bank or Surety Company.

The projects for which the guarantees are given are regularly reviewed by management and when it becomes probable that payments pursuant to performance guarantees will require to be made accruals are recorded in the Consolidated Financial Statement at that time.

Guarantees given by parent or group companies relating to liabilities included in the consolidated accounts are not included.

**(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 total vendor financing is  1,259 million at 31 March 2003 and  969 million at 30 September 2003.

The table below sets forth the breakdown of the outstanding vendor financing by Sector at 31 March 2003 and 30 September 2003 :

| | At 31 March 2003 | | | At 30 September 2003 | | |
|---|---|---|---|---|---|---|
| | Balance sheet [1] | Off balance sheet [2] | Total | Balance sheet [1] | Off balance sheet [2] | Total |
| | | | *(in  million)* | | | |
| **Marine** | **510** | **423** | **933** | **326** | **324** | **650** |
| Cruiseinvest/ Renaissance | 261 | 107 | 368 | 251 | 93 | 344 |
| Leasing entities | 223 | 128 | 351 | 49 | 105 | 154 |
| Others | 26 | 188 | 214 | 26 | 126 | 152 |
| **Transport** | | **317** | **317** | | **310** | **310** |
| European metro operator | | 257 | 257 | | 253 | 253 |
| Others | | 60 | 60 | | 57 | 57 |
| **Power** | | **5** | **5** | | **5** | **5** |
| **T&D** | | **4** | **4** | | **4** | **4** |
| **TOTAL** | **510** | **749** | **1,259** | **326** | **643** | **969** |

(1) Balance sheets items are included in « other fixed assets » (Note 9).

(2) Off-balance sheet figures correspond to the total guarantees and commitments, net of related cash deposits, which are shown as balance-sheet items.

**Marine**

Cruiseinvest / Renaissance

The vendor financing granted to Cruiseinvest relating to Renaissance Cruises amounts to € 368 million and €344 million at 31 March 2003 and 30 September 2003, respectively. The decrease is due to the appreciation of Euro against US Dollar during the period.

Leasing entities

The Group finances and guarantees the financing of three special leasing entities relating to three cruise-ships for an amount of € 351 million and € 154 million at 31 March 2003 and 30 September 2003, respectively. The decrease is mainly due to the repayment of part of the financing granted to two leasing entities for an amount of approximately € 180 million.

Other ships

The Group has guaranteed the financing arrangements of three cruise-ships and two high speed ferries delivered to three customers for an amount of € 214 million and € 152 million at 31 March 2003 and 30 September 2003, respectively. One of these guarantees is supported by a cash deposit amounting to € 26 million at 31 March 2003 and 30 September 2003. The decrease is due to the release by a French state company of the counter guarantee obtained from the Group at delivery of one cruise-ship.

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The provision retained in respect of Marine Vendor financing is  140 million at 31 March 2003 and 30 September 2003.

**Transport**

Guarantees given as part of vendor financing arrangements in Transport Sector amount to  317 million and  310 million at 31 March 2003 and 30 September 2003, respectively.

Included in this amount are guarantees given as part of a leasing scheme involving a major European metro operator as described in Note 17 (b). If the metro operator decides in year 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 GBP 177 million ( 257 million and  253 million at 31 March 2003 and 30 September 2003, respectively).

**b) Capital and operating lease obligations**

| | Total | Within 1 year | 1 to 5 years | Over 5 years |
|---|---|---|---|---|
| | | | *(in  million)* | |
| Long term rental [1] | 655 | 9 | 65 | 581 |
| Capital leases obligation [2] | 335 | 35 | 119 | 181 |
| Operating leases [3] | 478 | 70 | 205 | 203 |
| **Total of future payments** | **1,468** | **114** | **389** | **965** |

**(1)** **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.

These commitments are in respect of the full lease period and are covered by payments due to the Group from the metro operator.

If this lease was capitalised it would increase long-term assets and long-term debt by  667 million and  655 million at 31 March 2003 and 30 September 2003, respectively.

**(2)** **Capital leases**

If capital leases had been capitalised, it would have had the following effects on the consolidated balance sheet :

| | At 31 March 2003 | At 30 September 2003 |
|---|---|---|
| | *(in  million)* | |
| Increase of long term assets (property plant and equipment) | 212 | 244 |
| Increase of long term financial debt | 216 | 246 |
| **Decrease of shareholder s equity** | **(4)** | **(2)** |

**(3) Operating leases**

A number of these operating leases have renewal options. Rent expense was  44 million in the six month period ended 30 September 2003.

No material commitments are omitted in this note in accordance with current accounting rules.

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**Note 18 Contingencies**

***Litigation***

The Group is engaged in several legal proceedings, mostly contract disputes that have arisen in the normal course of business. Contract 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 us in these proceedings and disputes are significant ranging up to  248 million. Amounts retained in respect of litigation, considered as reasonable estimates of probable liabilities are included in provisions for risks and charges and accrued contract costs. 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.

***Claim from Royal Caribbean Cruises Limited***

On 7 August 2003, RCCL and various RCCL group companies filed a lawsuit in Florida, USA against Rolls Royce and various Rolls Royce group companies and against various ALSTOM group companies claiming damages for a global amount of approximately 248 million (US$290 million) for alleged misrepresentations in the selling of pods, and negligence in the design and manufacture of pods. The Group will strongly contest this claim.

***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 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 operations take place, industrial activities are subject to obtaining permits, licenses or/and authorisations, or to prior notification. Most facilities must comply with these permits, licenses or authorisations and are subject to regular administrative inspections.

Significant amounts are invested to ensure that activities are conducted in order to reduce the risks of impacting the environment and capital expenditures are regularly incurred in connection with environmental compliance requirements. Although involved in the remediation of contamination of certain properties and other sites, the Group believes that its facilities are in compliance with its operating permits and that operations are generally in compliance with environmental laws and regulations.

The outcome of environmental matters cannot be predicted with certainty and there can be no assurance that the amounts budgeted and provided will be adequate. In addition, future developments, such as changes in law or environmental conditions, could result in increased environmental costs and liabilities that could have a material effect on the financial condition or results of operations. To date, no significant liability has been asserted against us, and compliance with environmental regulations has not has a material effect on the results of operations.

***Asbestos***

The Group is subject to regulations, including in France, the US and the UK, 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 our operating units world-wide and to promote the application of this principle to all of our 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 the other Sectors.

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As of 30 September 2003, in France, the Group was aware of approximately 1,990 asbestos sickness related declarations accepted by the French Social Security authorities in France concerning our employees, former employees or from third parties, arising out of our activities in France. All of such cases are treated under the French Social Security system which pays the medical and other costs of those who are sick and which pays a lump sum indemnity. Out of these 1,990 declarations, we were aware of approximately 156 asbestos-related cases in France from our employees, former employees or from third parties. These persons have instituted judicial proceedings against certain of our subsidiaries with the aim of obtaining a court decision holding these subsidiaries liable for an inexcusable fault *(faute inexcusable)* in order to obtain a supplementary compensation above payments made by the French Social Security funds of related medical costs. All decisions rendered as of today by the Social Security Affairs Courts in proceedings involving ALSTOM s subsidiaries have found these subsidiaries liable on the grounds of inexcusable fault. Decisions of the Courts of Appeal have all confirmed these findings of inexcusable fault (25 decisions rendered as of 30 September 2003). The Group has appealed all of such decisions to the French Supreme Court. Even where the Group has been found liable on the grounds of inexcusable fault, it does not expect to suffer any material adverse financial consequences, because the financial consequences of any liability for inexcusable fault have been attributed by court decision or by applicable regulations to the French Social Security (medical) funds. Thus, in 102 of the 156 proceedings before French courts at 30 September 2003, which concern the Marine Sector, the social security authorities have ruled that the financial consequences of any liabilities for inexcusable fault will not be attributed to the Marine Sector and will be borne by the Social Security authorities. Although as of 30 September 2003 the Group had not yet obtained a specific ruling from the relevant French Social Security authorities in respect of the remaining 54 proceedings, of which 40 concern the Power Sector, the Group believes the same principle affording us financial protection will apply to such proceedings and that, accordingly, it will not suffer any material adverse financial consequences as a result of such asbestos related litigations in France.

The Group therefore believes that compensation for most of the current 156 proceedings involving certain of its subsidiaries as of 30 September 2003, including cases where we may be found to be at fault, is or will be borne by the general French Social Security (medical) funds. Based on applicable legislation and current case law, the Group also believes that the publicly funded Indemnification Fund for Asbestos Victims (FIVA), created in 2001 and effective since 29 March 2002, does not increase its current risk exposure. The FIVA was implemented to compensate persons harmed by exposure to asbestos in France. Once a person has received an offer of compensation, the fund itself may then take action against the employer considered responsible. However this subrogatory right can only be exercised pursuant to and within the limits of French Social Security regulations. The Group believes that those cases where compensation may not be definitely borne by the general French Social Security (medical) funds or by the FIVA represent an immaterial exposure for which it has not made any provisions.

In addition to the foregoing, in the United States, as of 30 September 2003, the Group was subject to approximately 154 asbestos-related personal injury lawsuits which have their origin solely in the Company s purchase of some of ABB s power generation business, for which it is indemnified by ABB.

The Group is also currently subject to two class action lawsuits in the United States asserting fraudulent conveyance claims against various ALSTOM and ABB entities in relation to Combustion Engineering, Inc. ( CE ), for which it has asserted indemnification against ABB. CE is a United States subsidiary of ABB, and its power activities were part of the power generation business purchased by us from ABB. In January 2003, CE filed a pre-packaged plan of reorganisation in United States bankruptcy court. This plan was recently confirmed by the bankruptcy court and a United States federal district court. The plan has been appealed and has not yet become effective; consummation of the plan is subject to certain other conditions specified therein. In addition to its protection under the ABB indemnity, ALSTOM believes that under the terms of the plan it would be protected against pending and future personal injury asbestos claims, or fraudulent conveyance claims, arising out of the past operations of CE.

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As of 30 September 2003, the Group was also subject to approximately 38 other asbestos-related personal injury lawsuits in the United States involving approximately 533 claimants that, in whole or in part, assert claims against ALSTOM which are not related to ALSTOM s purchase of some of ABB s power generation business or as to which the complaint does not provide details sufficient to permit us 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 defense has not been assumed by a third party and meaningful evaluation is practicable, we believe that we have valid defenses and, with respect to a number of lawsuits, the Group is asserting rights to indemnification against a third party.

The Group has not in recent years suffered any adverse judgment, or made any settlement payment, in respect of any US personal injury asbestos claim. Between 31 October 2002 and 30 September 2003, a total of 139 cases involving approximately 17,672 claimants were voluntarily dismissed by plaintiffs, typically without prejudice (which is to say the plaintiffs may refile these cases in the future).

For purposes of the foregoing discussion of asbestos-related cases, the Group considers a claim to have been dismissed, and to no longer be pending against it, if the plaintiffs attorneys have executed a notice or stipulation of dismissal or non-suit, or other similar document.

The Group is also subject to a minor number of asbestos related or other employee personal injury related claims in other countries, mainly in the UK where it is currently subject to approximately 153 such claims.

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. ALSTOM can give no assurances that asbestos- related cases against it will not grow in number or that those the group 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 would 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***

On 11 August 2003, the Group announced that the SEC is conducting a formal investigation, and the Group has conducted its own internal review, into certain matters relating to ALSTOM Transportation Inc. ( ATI ), one of the Group s subsidiaries. These actions followed receipt of anonymous letters alleging accounting improprieties on a railcar contract being executed at ATI s New York facility. Following receipt of these letters, the United States Federal Bureau of Investigation (the FBI ) also began an informal inquiry. The Group has fully cooperated with the SEC and the FBI in this matter and intends to continue to do so.

The internal review 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  51 million (after tax) 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 shareholders on 2 July 2003.

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***COB Investigation***

Senior officials of the Group have been interviewed by inspectors of the French *Commission des opérations de bourse* (the COB) in connection with the COB s investigation regarding public disclosures by the Group and trading of the Group s shares since 31 December 2001.

***United States Putative Class Action Lawsuits***

The Group and certain of its current and former officers, recently have been named as defendants in a number of purported shareholder class action lawsuits filed on behalf of various alleged classes of purchasers of American Depositary Receipts or other ALSTOM securities between various dates between 17 November 1998 and 30 June 2003. The actions seek to allege violations of United States federal securities laws, specifically Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, on the basis of various allegations that there were untrue statements of materials facts, and/or omissions to state material facts necessary to make the statements made not misleading, in various ALSTOM public communications regarding our business, operations and prospects, causing the putative classes to purchase ALSTOM securities at artificially inflated prices. The plaintiffs seek, among other things, class action certification, compensatory damages in an unspecified amount, and an award of costs and expenses, including counsel fees. The Group intend to vigorously defend these actions.

**Note 19 Financing package and liquidity risk**

**Financing package**

Subsequent to the shareholder s meeting held on 2 July 2003, the Group engaged in negotiations with its banks on a capital increase and the refinancing of the Group. The Group reached an agreement with its banks and the French State, announced on 6 August 2003. This was subsequently modified in order to satisfy certain requirements of the European Commission. The modified agreement ( the Financing Package ) was announced on 22 September 2003.

The principal features of the Financing Package are set out below.

The French State and a syndicate of banks will make funds available to the Group as follows:

| | In  million |
|---|---|
| **Equity and bonds reimbursable in shares** | **1,200** |
| Share capital increase with preferential rights | 300 |
| Issue of bonds mandatorily reimbursable in shares ( ORA )[1] with a five year maturity | 900 |
| **Long-term debt instruments** | **500** |

| | |
|---|---|
| Subordinated bonds to be provided by the French State with a 20 year maturity ( TSDDRA )[2] | 300 |
| Subordinated bonds to be provided by the French State with a 15 year maturity ( TSDD )[3] | 200 |
| **Medium-term loans** | **1,500** |
| Subordinated loan to be provided by the French State with a five year maturity | 300 |
| Subordinated loans to be provided by a syndicate of banks with a five year maturity | 1,200 |
| **TOTAL** | **3,200** |

(1) ORA or Obligations remboursable en actions , may be increased up to 1,000 million, with the banks subordinated loans correlatively reduced to 1,100 million.

(2) TSDDRA or Titres subordonnés à durée déterminée remboursable en actions , converted into shares immediately subject to European Commission review and approval.

(3) TSDD or Titres subordonnés à durée déterminée .

The Financing Package also provides for short-term facilities being made available in an amount of 1,500 million, of which the share of the French State is 1,200 million, until the long term part of the Financing Package is fully implemented.

In addition a syndicate of banks is providing a contract bonding and guarantee facility of 3,500 million, counter-guaranteed in part (65%) by the French State, to allow the Group to cover its normal business activity.

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The Group will have to return to the market for bonding in the fourth quarter of calendar year 2004, when its balance sheet structure will reflect the benefit of the implementation of the financing package thereby facilitating access to the bonding market.

Under the Financing package the new maturity profile of the Group s liquidity will be as follows:

| | | Principal amounts received /(due) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Outstanding 30 September 2003 | Q3 Fiscal year 2004 | Q4 Fiscal year 2004 | Total Fiscal year 2004 | Fiscal year 2005 | Fiscal year 2006 | Fiscal year 2007 | After fiscal year 2007 |
| Redeemable preference shares | **205** | | | | | (205) | | |
| Subordinated notes | **250** | | | | | | (250) | |
| Subordinated loan | | 650[3] | 850[3] | **1,500** | | | | (1,500) |
| Subordinated long term bond (TSDD) | | 200[3] | | **200** | | | | (200) |
| Subordinated bonds reimbursable with shares (TSDDRA)[4] | | 300[3] | | **300** | | | | |
| Bonds | **1,200** | | (550) | **(550)** | | | (650) | |
| Syndicated loans | **2,498** | (1,377)[2] | (400) | **(1,777)** | | | (721) | |
| Bilateral loans | **358** | | (75) | **(75)** | | (50) | (33) | (200) |
| Commercial paper | **1,320[1]** | (800) | (100) | **(900)** | (420) | | | |
| Banks overdrafts/other facilities/accrued interests | **323** | (281) | | **(281)** | (16) | (3) | (3) | (20) |
| **Total** | **6,154** | **(1,308)** | **(275)** | **(1,583)** | **(436)** | **(258)** | **(1,657)** | **(1,920)** |
| Future receivables securitised, net | **522** | (113) | (118) | **(231)** | (236) | (55) | | |
| **Liquidity** | **6,676** | **(1,421)** | **(393)** | **(1,814)** | **(672)** | **(313)** | **(1,657)** | **(1,920)** |
| Capital increase | | 300[3] | | **300** | | | | |
| Bonds reimbursable with Shares | | 900[3] | | **900** | | | | |
| **Liquidity and other funding sources** | | **(221)** | **(393)** | **(614)** | **(672)** | **(313)** | **(1,657)** | **(1,920)** |

(1) Maximum availability under commitments provided by a syndicate of banks ( 120 million) and the Caisse des dépôts et Consignation ( 1,200 million), including a 600 million commercial paper that was not drawn at 30 September 2003.

(2) Includes the expected early repayment of 1,250 of syndicated loans in the third quarter of fiscal year 2004.

(3) Expected proceeds to the Group.

(4) Subordinated bonds reimbursable with shares (TSDDRA) will only be reimbursed in cash in the event the European Commission does not approve their reimbursement with shares.

The Group is confident in its ability to successfully implement the Financing Package:

New covenants have been negotiated (see Note 14). The continued availability of debt financing will be dependent on banking covenants being respected or waivers being granted. This will in part be dependent on the Group s ability to

generate operating profit and cash flow.

The short term financing and the bonding facilities have been put in place and are fully available to the Group. The subordinated loan facility of  1.2 billion to be provided by the banks has been signed and commitment letters relating to the ORA have been received from all banks involved.

Shareholders will be asked to approve the Financing Package at a general meeting called for 18 November 2003 on second call. A quorum of 25 % of shareholders entitled to vote is required for this general meeting to be held. The Group has always been able to reach such a quorum in the past, on second call.

The European Commission has announced it will not object to the implementation of the Financing Package. It has at the same time and as is usual in such circumstances announced that it has opened a formal investigation to determine whether the Financing Package and certain other transactions with entities controlled by the French State are compatible with laws of the European common market.

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**Note 20 Post balance sheet events**

On 12 November 2003, the Group learned that the mediation in relation to the NEC contracts had failed and litigation is likely to follow (see Note 12).

**Note 21 Major companies included in the scope of consolidation**

The major companies are selected according to the following criteria:

Holding companies

Sales above  90 million in year ended 31 March 2003 but excluding company s which had a significant decrease in sales during the six-month period ended September 2003.

| Companies | Country | Ownership % | Consolidation Method |
|---|---|---|---|
| ALSTOM | France | | Parent company |
| ALSTOM Holdings | France | 100.0 | Full consolidation |
| ALSTOM Gmbh (holding) | Germany | 100.0 | Full consolidation |
| ALSTOM UK Ltd (holding) | United Kingdom | 100.0 | Full consolidation |
| ALSTOM Inc (holding) | United-States | 100.0 | Full consolidation |
| ALSTOM NV (holding) | Netherlands | 100.0 | Full consolidation |
| ALSTOM Mexico SA de CV (holding) | Mexico | 100.0 | Full consolidation |
| ALSTOM Espana IB (holding) | Spain | 100.0 | Full consolidation |
| ALSTOM (Switzerland) Ltd | Switzerland | 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 DDF SA | France | 98.8 | Full consolidation |
| ALSTOM Energietechnik GmbH | Germany | 100.0 | Full consolidation |
| ALSTOM Ferroviaria Spa | Italy | 100.0 | Full consolidation |
| ALSTOM K.K. | Japan | 100.0 | Full consolidation |
| ALSTOM LHB GmbH | Germany | 100.0 | Full consolidation |
| ALSTOM Ltd | United Kingdom | 100.0 | Full consolidation |
| ALSTOM Power sro | Czech Republic | 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 Conversion SA France | France | 100.0 | Full consolidation |
| ALSTOM Power Generation AG | Germany | 100.0 | Full consolidation |
| ALSTOM Power Hydraulique | 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 Ltd | Switzerland | 100.0 | Full consolidation |
| ALSTOM Power SA | Spain | 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 |

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| Companies | Country | Ownership % | Consolidation Method |
|---|---|---|---|
| ALSTOM Power Turbinen GmbH | Germany | 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 T&D Inc. | United States | 100.0 | Full consolidation |
| ALSTOM T&D SA | France | 100.0 | Full consolidation |
| ALSTOM T&D SA de CV | Mexico | 100.0 | Full consolidation |
| ALSTOM Transport SA | France | 100.0 | Full consolidation |
| ALSTOM Transporte SA de CV | Mexico | 100.0 | Full consolidation |
| ALSTOM Transportation Inc | United States | 100.0 | Full consolidation |
| ALSTOM Transporte | Spain | 100.0 | Full consolidation |
| Chantiers de l Atlantique | France | 100.0 | Full consolidation |
| EUKORAIL Ltd | South Korea | 100.0 | Full consolidation |
| West Coast Traincare | United Kingdom | 76.0 | Full consolidation |

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

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**1.1.3. Statutory Auditors report on the interim consolidated financial statements**

*(Free translation of a French language original prepared for convenience purpose only. Accounting principles and auditing standards and their application in practice vary from one country to another. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than France. In addition, the procedures and practices followed by the statutory auditors in France with respect to such financial statements included in a prospectus may differ from those generally accepted and applied by auditors in other countries. Accordingly, the French financial statements and the auditors report of which a translation is presented in this document for convenience only are for use by those knowledgeable about French accounting procedures, auditing standards and their application in practice.)*

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**Independent auditors review report on the**

**interim consolidated financial statements**

**Period from 1 April 2003 to 30 September 2003**

Pursuant to article L. 232-7 of the French Commercial Code (*Code de commerce*), we have reviewed the accompanying interim consolidated financial statements of ALSTOM ( the Group ) covering the period from 1 April 2003 to 30 September 2003 and the information contained in the half year management report.

The interim consolidated financial statements are the responsibility of the board of directors. Our responsibility is to issue a report on them based on our review.

We have conducted our review in accordance with professional standards applicable in France. These standards require that we perform limited procedures, to obtain moderate assurance, which is less than obtained in an audit, as to whether the interim consolidated financial statements are free of material misstatement. We have not performed an audit, as a review is limited primarily to analytical procedures and to inquiries of group management and knowledgeable personnel on information as we deemed necessary.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements, prepared in accordance with accounting principles generally accepted in France, do not give a true and fair view of the financial position and the assets and liabilities of the Group as at 30 September 2003 and of the results of its operations for the six month period then ended.

The accompanying interim consolidated financial statements have been prepared assuming that ALSTOM will continue as a going concern. ALSTOM has incurred significant operating losses and a high level of indebtedness as a result of which its ability to meet its financial needs depends on the successful execution of its action plans. As part of these action plans and as explained in Note 19, ALSTOM has reached agreement with its banks and with the Republic of France, the implementation of which depends on certain future events set out in Note 19 and Note 14. The accompanying interim consolidated financial statements do not include any adjustments to assets and liabilities, in particular goodwill, other intangible assets and deferred tax assets that are stated on the balance sheet as of 30 September 2003 for, respectively, � 3,931, 974 and � 1,884 million (see Notes 7, 8 and 6), that may possibly result from a negative outcome to the uncertainty related to going concern arising through the matters described above.

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As set out in Note 6, independent of the success of the action plans, the capacity of ALSTOM to continue to support the carrying value of its deferred tax assets depends on the Group s ability to generate an adequate level of taxable income over the coming years.

We have also reviewed, in accordance with professional standards applicable in France, the information contained in the management report accompanying the interim consolidated financial.

We have no comment to make as to its consistency with the interim consolidated financial statements or the fair presentation of the information contained in the management report.

Neuilly-sur-Seine, 13 November 2003

The Independent Auditors

| BARBIER FRINAULT & AUTRES | DELOITTE TOUCHE TOHMATSU |
| --- | --- |
| Gilles Puissochet | Alan Glen |

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### 1.2. Pro forma datas at 31 March 2003 and at 30 September 2003

### 1.2.1. Pro forma consolidated financial statements for fiscal year closed 31 March 2003 and half year ended 30 September 2003

**PRO FORMA CONSOLIDATED INCOME STATEMENTS**

| | Year ended 31 March | | Half-year ended 30 September | |
|---|---|---|---|---|
| | 2003 | 2003 | 2003 | 2003 |
| | Published(1) | Pro forma(1) | Published(1) | Pro forma(1) |
| | | **(in  millions)** | | |
| **SALES** | **21,351** | **17,078** | **8,854** | **7,308** |
| *Of which products* | *16,374* | *12,815* | *6,602* | *5,247* |
| *Of which services* | *4,977* | *4,263* | *2,252* | *2,061* |
| Cost of sales | (19,187) | (16,001) | (7,577) | (6,454) |
| *Of which products* | *(15,504)* | *(12,864)* | *(5,805)* | *(4,821)* |
| *Of which services* | *(3,683)* | *(3,137)* | *(1,772)* | *(1,633)* |
| Selling expenses | (970) | (609) | (435) | (286) |
| Research and development expenses | (622) | (465) | (239) | (187) |
| Administrative expenses | (1,079) | (813) | (471) | (347) |
| **OPERATING INCOME (LOSS)** | **(507)** | **(810)** | **132** | **34** |
| Other income (expense), net | (555) | (274) | (397) | (361) |
| Other intangible assets amortisation | (67) | (57) | (31) | (29) |
| **EARNINGS BEFORE INTEREST AND TAX** | **(1,129)** | **(1,141)** | **(296)** | **(356)** |
| Financial income (expense), net | (270) | (174) | (220) | (193) |
| **PRE-TAX INCOME (LOSS)** | **(1,399)** | **(1,315)** | **(516)** | **(549)** |
| Income tax (charge) credit | 263 | 191 | 29 | 81 |
| Share in net income (loss) of equity investments | 3 | 3 | | |
| Minority interests | (15) | (12) | (2) | (1) |
| Goodwill amortisation | (284) | (229) | (135) | (112) |
| **NET INCOME (LOSS)** | **(1,432)** | **(1,362)** | **(624)** | **(581)** |
| Earnings per share in Euro | | | | |
| Basic | (5.4) | (5.1) | (2.2) | (2.1) |
| Diluted | (5.4) | (5.1) | (2.2) | (2.1) |

(1) See Note 3 to the pro forma consolidated financial information for the reconciliation of the consolidated income statements between the published and the pro forma consolidated financial statements for the year ended 31 March 2003 and the half-year ended 30 September 2003.

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**PRO FORMA CONSOLIDATED BALANCE SHEETS**

| | At 31 March 2003 | 2003 | At 30 September 2003 | 2003 |
|---|---|---|---|---|
| | Published[(1)] | Pro forma[(1)] | Published[(1)] | Pro forma[(1)] |
| | (in  millions) | | | |
| **ASSETS** | | | | |
| Goodwill, net | 4,440 | 3,633 | 3,931 | 3,523 |
| Other intangible assets, net | 1,168 | 1,004 | 974 | 974 |
| Property, plant and equipment, net | 2,331 | 1,857 | 1,940 | 1,625 |
| Equity method investments and other investments, net | 245 | 245 | 249 | 249 |
| Other fixed assets, net | 1,294 | 1,405 | 1,239 | 1,222 |
| **Fixed assets, net** | **9,478** | **8,144** | **8,333** | **7,593** |
| **Deferred taxes** | **1,831** | **1,642** | **1,884** | **1,731** |
| Inventories and contracts in progress, net | 4,608 | 3,535 | 3,744 | 3,214 |
| Trade receivables, net | 4,855 | 3,982 | 4,686 | 3,981 |
| Other accounts receivables, net | 2,265 | 2,047 | 2,602 | 2,431 |
| **Current assets** | **11,728** | **9,564** | **11,032** | **9,626** |
| **Short term investments** | **142** | **142** | **98** | **98** |
| **Cash and cash equivalents** | **1,628** | **1,577** | **1,671** | **1,671** |
| **TOTAL ASSETS** | **24,807** | **21,069** | **23,018** | **20,719** |
| **LIABILITIES** | | | | |
| **Shareholders equity** | **758** | **823** | **183** | **295** |
| **Minority interests** | **95** | **72** | **94** | **72** |
| **Provisions for risks and charges** | **3,698** | **3,420** | **3,500** | **3,290** |
| **Accrued pension and retirement benefits** | **972** | **825** | **937** | **822** |
| **Financial debt** | **6,331** | **4,734** | **6,076** | **5,125** |
| **Deferred taxes** | **37** | **36** | **55** | **54** |
| Customers deposits and advances | 3,541 | 3,097 | 3,085 | 2,780 |
| Trade payables | 4,629 | 4,098 | 4,132 | 3,758 |
| Accrued contract costs and other payables | 4,746 | 3,964 | 4,956 | 4,523 |
| **Current liabilities** | **12,916** | **11,159** | **12,173** | **11,061** |
| **TOTAL LIABILITIES** | **24,807** | **21,069** | **23,018** | **20,719** |

(1) See Note 4 to the pro forma consolidated financial information for the reconciliation of consolidated balance sheets between the published and the pro forma consolidated financial statements at 31 March 2003 and 30 September 2003.

(2) See Note 6 to the pro forma consolidated financial information.

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**PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Year ended 31 March | | Half-year ended 30 September | |
|---|---|---|---|---|
| | 2003 | 2003 | 2003 | 2003 |
| | Published[3] | Pro forma[3] | Published[3] | Pro forma[3] |
| | (in  millions) | | | |
| **Net income (loss)** | **(1,432)** | **(1,362)** | **(624)** | **(581)** |
| Minority interests | 15 | 12 | 2 | 1 |
| Depreciation and amortisation | 754 | 604 | 337 | 281 |
| Changes in provision for pension and retirement benefits, net | 22 | 15 | 47 | 42 |
| Net (gain) loss on disposal of fixed assets and investments | (19) | (187) | (91) | (54) |
| Share in net income (loss) of equity investees (net of dividends received) | (3) | (3) | | |
| Changes in deferred tax | (424) | (321) | (77) | (120) |
| **Net income after elimination of non cash items** | **(1,087)** | **(1,242)** | **(406)** | **(431)** |
| Decrease (increase) in inventories and contracts in progress, net | 415 | 341 | 319 | 290 |
| Decrease (increase) in trade and other receivables, net | 650 | 583 | (355) | (46) |
| Increase (decrease) in sale of trade receivables, net | (661) | (767) | (144) | (144) |
| Increase (decrease) in contract related provisions | 160 | 209 | (262) | (234) |
| Increase (decrease) in other provisions | (49) | (50) | 33 | 33 |
| Increase (decrease) in restructuring provisions | (29) | (18) | 137 | 122 |
| Increase (decrease) in customers deposits and advances | (98) | (1) | (221) | (308) |
| Increase (decrease) in trade and other payables, accrued contract costs and accrued expenses | 162 | 176 | 168 | 127 |
| **Changes in net working capital** | **550** | **473** | **(325)** | **(160)** |
| **Net cash provided by (used in) operating activities** | **(537)** | **(769)** | **(731)** | **(591)** |
| Proceeds from disposals of property, plant and equipment | 252 | 228 | 166 | 135 |
| Capital expenditures | (410) | (325) | (105) | (50) |
| Decrease (increase) in other fixed assets, net | (55) | (50) | 145 | 147 |
| Cash expenditures for acquisition of investments, net of net cash acquired | (166) | (173) | (3) | (3) |
| Cash proceeds from sale of investments, net of net cash sold | 38 | 1 759 | 772 | (5) |
| **Net cash provided by (used in) investing activities** | **(341)** | **1,439** | **975** | **224** |
| Capital increase | 622 | 622 | | |
| Dividends paid including minorities | (1) | (1) | (2) | (3) |
| **Net cash provided by (used in) financing activities** | **621** | **621** | **(2)** | **(3)** |
| Net effect of exchange rate | (41) | (51) | 15 | 7 |
| Other changes[2] | (464) | (456) | (3) | 22 |
| **Decrease (increase) in net debt** | **(762)** | **784** | **254** | **(341)** |
| **Net debt at the beginning of the period[1]** | **(3,799)** | **(3,799)** | **(4,561)** | **(3,015)** |
| **Net debt at the end of the period[1]** | **(4,561)** | **(3,015)** | **(4,307)** | **(3,356)** |
| Cash paid for income taxes | 70 | 46 | 50 | 43 |
| Cash paid for net interest | 172 | 95 | 129 | 104 |

(1) The net debt is the sum of cash and cash equivalents and short-term investments less the financial debt.

(2) Including at 31 March 2003 the reclassification of redeemable preference shares and undated subordinated notes for a total of €455 million as described in Note 22 (a) of the consolidated financial statements as at 31 March 2003.

(3) See Note 5 to the pro forma consolidated financial information for the reconciliation of the consolidated statements of cash flows between the published and the Pro Forma Consolidated Financial Statements for the year ended 31 March 2003 and the half-year ended 30 September 2003.

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**NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Basis of preparation**

***a) Objective of the pro forma consolidated financial statements***

The pro forma consolidated financial statements as at 31 March 2003 and 30 September 2003 aim to disclose the effects of the disposals of the Transmission & Distribution sector (T&D), excluding the Power Conversion business, and the Industrial Turbines businesses (small and medium industrial gas turbines and industrial steam turbines) as if those disposals had occurred on 1 April 2002.

The disposal of the small and medium industrial gas turbines and industrial steam turbines businesses has been concluded on 30 April 2003 for the first transaction and on 31 July 2003 for the second transaction.

On 25 September, the Group has signed a binding agreement to sell its T&D sector to Areva, excluding the Power Conversion business, with a completion of the transaction forecasted for beginning January 2004. These activities will be deconsolidated as from that date. The sale price is 950 million, before closing price adjustments.

Those pro forma consolidated financial statements have been prepared for information purpose only and are not representative of the situation or of the performances that would have been realised if the T&D and Industrial Turbines activities had been sold on 1 April 2002.

***b) Basis of preparation***

The pro forma consolidated financial statements at 31 March 2003 have been prepared on the basis of the consolidated financial statements modified and approved by the General Shareholders Meeting held on 2 July 2003.

The pro forma consolidated financial statements at 30 September 2003 have been prepared on the basis of the half-year consolidated financial statements approved by the Board of Directors on 12 November 2003. The Group in preparing its interim consolidated financial statements has assumed the successful implementation of the financing package set out in Note 19 of the half-year financial statements.

Those financial statements have been prepared on the basis of the accounting policies and methods of computation described in Note 2.

***c) Assumptions***

The following assumptions have been taken to prepare these pro forma consolidated financial statements:

- the disposal of T&D Sector, excluding the Power Conversion business, is considered to have occurred on 1 April 2002 for a price of 950 million,

- the disposal of the Industrial Turbines businesses is considered to have occurred on 1 April 2002 for an amount of 967 million (subject to final price adjustments) including a 125 million deposit in an escrow account and disclosed in Other fixed assets, net ,

- the net incomes (losses) and the cash flows related to the sold businesses during the fiscal year ended 31 March 2003 and the half year ended 30 September 2003 have been deconsolidated,

- the net result on disposal amounts to 148 million before tax effects and is disclosed as Other income (expenses), net in the pro forma financial consolidated statements for fiscal year ended 31 March 2003. This net result on disposal, calculated on the basis of the net assets as of 1 April 2002, is neither

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representative of the net gain recorded as part of for the deconsolidation of the Industrial Turbines businesses in the consolidated financial statements for the half-year ended 30 September 2003, nor of the net result that will be recorded as part of the deconsolidation of the T&D Sector, excluding the Power Conversion business. According to the agreement, the net assets exclude the net cash or net debt and the outstanding amount of sale of trade receivables of Industrial Turbines businesses and T&D Sector excluding Power Conversion, except for 47 million of cash in the Industrial Turbines businesses. The final net result on disposal will differ according to the evolution of the net assets sold between the 1 April 2002 and the effective respective deconsolidation dates, the currency rates at those dates and the additional selling costs relating to the T&D sector,

- the Group intends to refinance the programme of sale of trade receivables of the T&D sector. Nevertheless, as part of the preparation of these pro forma consolidated financial statements, the Group has considered the conservative hypothesis that the outstanding amount of the programmes relating to the disposed activities at 1 April 2002 was reimbursed,

- the 1,792 million of total proceeds from the disposed activities, except for the 125 million under escrow account, have been fully dedicated to the immediate reimbursement of the financial debt,

- the Group has estimated, on the basis of its debt structure, that this anticipated reimbursement would have generated a saving of interest expenses of around 77 million for the fiscal year ended 31 March 2003 and 25 million for the half year ended 30 September 2003,

- the goodwill and other intangible assets amortisation related to the disposed activities have been cancelled from the pro forma consolidated financial statements,

- the related selling costs as incurred at 30 September 2003 have been taken into account, as their amount was defined at the date of preparation of these pro forma consolidated financial statements. The costs related to the T&D sector disposal, excluding the Power Conversion business, have not been taken into account, as the amount was not fully determined at the date of preparation of these pro forma consolidated financial statements,

- the tax effects on the pro forma result on disposal, the savings on interest expenses and the costs related to the disposal of the Industrial Turbines businesses have been taken into account,

- the effects of potential price adjustments related to the disposal of the T&D sector (excluding the Power Conversion business) and the Industrial Turbines businesses haven t been taken into account.

**Note 2 Summary of accounting policies**

The pro forma consolidated statements of the Group are prepared in accordance with French Generally Accepted Accounting Principles and Réglements 99-02 & 00-06 of the Comité de Réglementation Comptable (French consolidation methodology). Benchmark treatments are generally used. Capital lease arrangements and long term rentals are not capitalised. If capital leases had been capitalised, the impact would have been an increase of property plant and equipment, net of 182 million and 211 million, an increase of financial debt of 186 million and 213 million and a decrease of shareholders equity of 4 million and 2 million in the pro forma financial statements as at 31 March and 30 September 2003, respectively. If long term rentals had been consolidated, the impact would have been an increase of long-term lease receivable and an increase of long-term lease payable of 667 million and 655 million in the pro forma statements as at 31 March and 30 September 2003, respectively (Note 6 (b)).

***(a) Consolidation methods***

Investments over which the Group has direct or indirect control of more than 50% of the outstanding voting shares, or over which it 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.

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Joint ventures in companies in which the Group has joint control 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 which the Group has an equity interest of 20% to 50% and over which the Group exercises significant influence, but not control, are accounted for under the equity method.

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.

Inter company balances and transactions are eliminated on consolidation.

***(b) Use of estimates***

The preparation of the pro forma consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent gains and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Management reviews estimates on an ongoing basis using currently available information. Costs to date are considered, as are estimated costs to complete and estimated future costs of warranty obligations. Estimates of future cost reflect management s current best estimate of the probable outflow of financial resources that will be required to settle contractual obligations. The assumptions to calculate present 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. Changes in facts and circumstances may result in actual financial consequences different from the estimates.

***(c) Revenue and cost recognition***

Revenue on contracts which are of less than one year duration, substantially the sale of manufactured products, is recognised upon transfer of title, including the risks and rewards of ownership, which generally occurs on delivery to the customer.

Revenue on construction type contracts of more than one year, long term contracts, is recognised on the percentage of completion method, measured either by segmented portions of the contract contract milestones or costs incurred to date compared to estimated total costs.

Claims are recognised as revenue when it is probable that the claim will result in additional revenue and the amount can be reasonably estimated, which generally occurs upon agreement by the customer. Government subsidies relating to the shipbuilding sector are added to the related contract value and are recognised as revenue using the percentage of completion method.

For long term service contracts, revenues are generally recognised on a straight-line basis over the term of the contract.

Total estimated costs at completion include direct (such as material and labour) and indirect contract costs incurred to date as well as estimated similar costs to complete, including warranty accruals and costs to settle claims or disputes that are considered probable. Selling and administrative expenses are charged to expense as incurred. As a result of contract review, accruals for losses on contracts and other contract related provisions are recorded as soon as they are probable in the line item Cost of sales in the Consolidated Income Statement. Adjustments to contract estimates resulting from job conditions and performance, as well as changes in estimated profitability, are recognised in Cost of Sales as soon as they occur.

Cost of sales is computed on the basis of percentage of completion applied to total estimated costs. The excess of that amount over the cost of sales reported in prior periods is the cost of revenues for the period. Contract completion accruals are recorded for future expenses to be incurred in connection with the completion of contracts or of identifiable portions of contracts. Warranty provisions are estimated on the basis of contractual agreement and available statistical data.

***(d) Translation of financial statements denominated in foreign currencies***

The functional currency of the Group s foreign subsidiaries is the applicable local currency. 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.

***(e) Foreign currency transactions***

Foreign currency transactions are translated into local currency at the rate of exchange applicable to the transaction (market rate or forward hedge rate). At period end, foreign currency assets and liabilities to be settled are translated into local currency at the rate of exchange prevailing at that date or the forward hedge rate. Resulting exchange rate differences are included in the Consolidated Income Statement.

***(f) Financial instruments***

The Group operates internationally giving rise to exposure to market risks and changes in interest rates and foreign exchange rates. Financial instruments are utilised by the Group to reduce those risks. The Group s policy is to hedge currency exposures by holding or issuing financial instruments.

The Group enters into various interest rate swaps, forward rate agreements ( FRA ) and floors to manage its interest rate exposures. Net interest is accrued as either interest receivable or payable with the offset recorded in financial interest.

The Group enters into forward foreign exchange contracts to hedge foreign currency transactions. Realised and unrealised gains and losses on these instruments are deferred and recorded in the carrying amount of the related hedged asset, liability or firm commitment.

The Group also uses export insurance contracts to hedge its currency exposure on certain long-term contracts during the open bid time as well as when the commercial contract is signed. If the Group is not successful in signing the contract, the Group incurs no additional liability towards the insurance company except the prepaid premium. As a consequence, during the open bid period, these insurance contracts are accounted for as such, the premium being expensed when incurred. When the contract is signed, the insurance contract is accounted for as described above for forward foreign exchange contracts.

In addition, the Group may enter into derivatives in order to optimise the use of some of its existing assets. Such a decision is taken on a case by case basis and is subject to approval by the management.

***(g) Goodwill***

Goodwill represents the excess of the purchase price over the fair value of the assets and liabilities acquired in a business combination. Initial estimates of fair values are finalised at the end of the financial year following the year of acquisition. Thereafter, releases of unrequired provisions for risks and charges resulting from the purchase price allocation are applied to goodwill. Goodwill is 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.

***(h) Other intangible assets***

The Group recognises other intangible assets such as technology, licensing agreements, installed bases of customers, etc. 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.

***(i) Impairment***

At the balance sheet date, whenever events or changes in markets indicate a potential impairment to goodwill, other intangible assets, property, plant and equipment and deferred tax assets, the carrying amount of such assets is reduced to their estimated recoverable value. In any event, impairment tests are performed annually.

***(j) Property, plant and equipment***

Property, plant and equipment are recorded at historical cost to the Group. Depreciation is computed using the straight-line method over the following estimated useful lives:

| | Estimated useful life in years |
|---|---|
| Buildings | 25 |
| Machinery and equipment | 10 |
| Tools, furniture, fixtures and others | 3-7 |

Assets financed through capital lease are not capitalised (see Note 6 (b)).

***(k) Other investments***

Other investments are recorded at the lower of historical cost or net realisable value, assessed on an individual investment basis. The net realisable value is calculated using the following parameters: equity value, profitability and expected cash flow from the investment.

***(l) Other fixed assets***

Other fixed assets are recorded at the lower of historical cost or net realisable value, assessed on an individual investment basis.

***(m) Inventories and contracts in progress***

Raw materials and supplies, work and contracts 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 includes costs of acquiring inventories and bringing them to their existing location and condition. Finished goods and work and contract in progress inventory includes an allocation of applicable manufacturing overheads.

***(n) Short-term investments***

Short-term investments include debt and equity securities and deposits with an initial maturity greater than three months but available for sale. Short-term investments are recorded at the lower of cost or market value (on a line by line basis).

***(o) Cash and cash equivalents***

Cash and cash equivalents consist of cash and highly liquid investments with an initial maturity of less than three months.

***(p) Deferred taxation***

Deferred taxes are calculated for each taxable entity for temporary differences arising between the tax value and book value of assets and liabilities. Deferred tax assets and liabilities are recognised where timing differences are expected to reverse in future years. Deferred tax assets are recorded up to their expected recoverable amount. Deferred tax amounts are adjusted for changes in the applicable tax rate upon enactment. Deferred tax assets and liabilities are netted first by legal entity and then by tax grouping.

No provision is made for income taxes on accumulated earnings of consolidated businesses or equity method investments for whom no distribution is planned.

***(q) Customer deposits and advances***

Customer deposits and advances are shown net, and represent amounts received from customers in advance of work being undertaken on their behalf. Where trading has taken place under the long term contract trading rules, but provisional acceptance of the contract has not taken place, the related customer advance is shown as a deduction from the related receivables.

If any balance of customer deposits and advances is still outstanding and where work is undertaken on behalf of customers before sale, the related customer advance, termed a progress payment is deducted from Inventories and Contracts in Progress on a contract by contract basis.

***(r) Provisions for risks and charges***

A provision is recognised when the Group has a present legal or constructive obligation of uncertain timing or amount as a result of a past event and it is probable that an outflow of economic resources will be required to settle the obligation and such outflow can be reliably estimated.

Provisions for warranties are recognised based on contract terms. Warranty periods may extend up to five years. The provisions are based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. Provisions for contract losses are recorded at the point where the loss is first determined. Provisions are recorded for all penalties and claims based on management s assessment of the likely outcome.

***(s) Stock options***

Stock options are not recorded by the Group when granted. However, upon exercise of stock options, the Group records the issuance of the common shares as an equity transaction based on the amount of cash received from the holders.

***(t) Research and development***

Internally generated research and development costs are expensed as incurred.

***(u) Employee benefits***

The estimated cost of providing benefits to employees is accrued during the years in which the employees render services.

For single employer defined benefit plans, the fair value of plan assets is assessed annually and actuarial assumptions are used to determine cost and benefit obligations. Liabilities and prepaid expenses are accrued over the estimated term of service of employees using actuarial methods. Experience gains and losses, as well as changes in actuarial assumptions and plan assets and provisions are amortised over the average future service period of employees.

For defined contribution plans and multi-employer pension plans, expenses are recorded as incurred.

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***(v) Restructuring***

Restructuring costs are accrued when management announces the reduction or closure of facilities, or a programme to reduce the workforce and when related costs are precisely determined. Such costs include employees severance and termination benefits, estimated facility closing costs and write-off of assets.

***(w) Financial income (expense)***

Financial income (expense) is principally comprised of interest payable on borrowings, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset. Dividend income is recognised in the income statement on the date that the dividend is declared.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs.

***(x) Earnings per share***

Basic Earnings per share are computed by dividing the period net income (loss) by the weighted average number of outstanding shares during the financial year.

Diluted earnings per share are computed by dividing the period net income (loss) by the weighted average number of shares outstanding plus the effect of any dilutive instruments.

For the diluted earnings per share calculation, Net income (loss) is not adjusted as the Group has no interest bearing dilutive instruments.

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

| | At 31 March 2003 | | At 30 September 2003 | |
|---|---|---|---|---|
| **for 1 monetary unit** | **Average** | **Closing** | **Average** | **Closing** |
| British pound | 1.549571 | 1.450116 | 1.427823 | 1.431434 |
| Swiss franc | 0.682536 | 0.677323 | 0.650886 | 0.649182 |
| US dollar | 0.997990 | 0.917852 | 0.879388 | 0.858222 |
| Canadian dollar | 0.646284 | 0.623558 | 0.634476 | 0.636254 |
| Australian dollar | 0.563472 | 0.553220 | 0.573704 | 0.584761 |

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**Note 3 Reconciliation of the consolidated income statements between the published and pro forma consolidated financial statements for the year ended 31 March 2003 and the half-year ended 30 September 2003**

***(a) Reconciliation between published consolidated income statement and pro forma consolidated income statement for the year ended 31 March 2003***

| | Year ended 31 March 2003 Published | Disposal of Industrial Turbines businesses(1) | Disposal of T&D sector (excluding Power Conversion)(2) | Pro forma adjustments | Year ended 31 March 2003 Pro forma |
|---|---|---|---|---|---|
| | | | **(in  million)** | | |
| **SALES** | **21,351** | **(1,268)** | **(3,005)** | | **17,078** |
| *Of which products* | *16,374* | *(1,004)* | *(2,555)* | | *12,815* |
| *Of which services* | *4,977* | *(264)* | *(450)* | | *4,263* |
| Cost of sales | (19,187) | 1,005 | 2,181 | | (16,001) |
| *Of which products* | *(15,504)* | *828* | *1,812* | | *(12,864)* |
| *Of which services* | *(3,683)* | *177* | *369* | | *(3,137)* |
| Selling expenses | (970) | 70 | 291 | | (609) |
| Research and development expenses | (622) | 53 | 104 | | (465) |
| Administrative expenses | (1,079) | 58 | 208 | | (813) |
| **OPERATING INCOME (LOSS)** | **(507)** | **(82)** | **(221)** | | **(810)** |
| Other income (expense), net | (555) | 19 | 114 | 148(3) | (274) |
| Other intangible assets amortisation | (67) | 10 | | | (57) |
| **EARNINGS BEFORE INTEREST AND TAX** | **(1,129)** | **(53)** | **(107)** | **148** | **(1,141)** |
| Financial income (expense), net | (270) | | 19 | 77(4) | (174) |
| **PRE-TAX INCOME (LOSS)** | **(1,399)** | **(53)** | **(88)** | **225** | **(1,315)** |
| Income tax (charge) credit | 263 | | 21 | (93)(5) | 191 |
| Share in net income (loss) of equity investments | 3 | | | | 3 |
| Minority interests | (15) | | 3 | | (12) |
| Goodwill amortisation | (284) | 22 | 33 | | (229) |
| **NET INCOME (LOSS)** | **(1,432)** | **(31)** | **(31)** | **132** | **(1,362)** |
| Earnings per share in Euro | | | | | |
| Basic | (5.4) | (0.2) | (0.2) | 0.7 | (5.1) |
| Diluted | (5.4) | (0.2) | (0.2) | 0.7 | (5.1) |

(1) Effects of the deconsolidation at 1 April 2002 of the Industrial Turbines businesses.
(2) Effects of the deconsolidation at 1 April 2002 of the T&D sector, excluding the Power Conversion business.
(3) This net result on disposal is not representative of the net result that will be recorded when these activities will effectively be deconsolidated. The final net result on disposal will differ according to the evolution of the net assets sold between the 1 April 2002 and the effective deconsolidation dates, the currency rates at those dates and the additional selling costs relating to the T&D sector disposal.
(4) The interest expenses for the fiscal year ended 31 March 2003 has been reduced by 77 million to take into account the estimated savings generated from the allocation of the 1,792 million (1,917 million proceeds net of 125 million of escrow account) proceeds from the disposal of the Industrial Turbines businesses and the T&D sector to the reimbursement of the net debt at 1 April 2002.
(5) The pro forma deferred tax charges adjustments amount to 93 million of which 66 million relate to the net result on disposals and 27 million relate to the interests expenses saved.

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***(b) Reconciliation between published consolidated income statements and pro forma consolidated income statements for the half-year ended 30 September 2003***

| | Half-year ended 30 September 2003 Published | Disposal of Industrial Turbines businesses[1] | Disposal of T&D sector (excluding Power Conversion)[2] | Pro forma adjustments | Half-year ended 30 September 2003 Pro forma |
|---|---|---|---|---|---|
| | | | **(in € million)** | | |
| **SALES** | **8,854** | **(210)** | **(1,336)** | | **7,308** |
| *Of which products* | *6,602* | *(206)* | *(1,149)* | | *5,247* |
| *Of which services* | *2,252* | *(4)* | *(187)* | | *2,061* |
| Cost of sales | (7,577) | 162 | 961 | | (6,454) |
| *Of which products* | *(5,805)* | *159* | *825* | | *(4,821)* |
| *Of which services* | *(1,772)* | *3* | *136* | | *(1,633)* |
| Selling expenses | (435) | 13 | 136 | | (286) |
| Research and development expenses | (239) | 7 | 45 | | (187) |
| Administrative expenses | (471) | 14 | 110 | | (347) |
| **OPERATING INCOME (LOSS)** | **132** | **(14)** | **(84)** | | **34** |
| Other income (expense), net | (397) | 5 | 66 | (35)[3] | (361) |
| Other intangible assets amortisation | (31) | 2 | | | (29) |
| **EARNINGS BEFORE INTEREST AND TAX** | **(296)** | **(7)** | **(18)** | **(35)** | **(356)** |
| Financial income (expense), net | (220) | | 2 | 25[4] | (193) |
| **PRE-TAX INCOME(LOSS)** | **(516)** | **(7)** | **(16)** | **(10)** | **(549)** |
| Income tax (charge) credit | 29 | | 7 | 45[5] | 81 |
| Share in net income (loss) of equity investments | | | | | |
| Minority interests | (2) | | 1 | | (1) |
| Goodwill amortisation | (135) | 5 | 18 | | (112) |
| **NET INCOME (LOSS)** | **(624)** | **(2)** | **10** | **35** | **(581)** |
| Earnings per share in Euro | | | | | |
| Basic | (2.2) | | | 0.1 | (2.1) |
| Diluted | (2.2) | | | 0.1 | (2.1) |

(1) Effects of the deconsolidation at 1 April 2002 of the Industrial Turbines businesses.
(2) Effects of the deconsolidation at 1 April 2002 of the T&D sector excluding the Power Conversion business.
(3) Cancellation of net result from the disposal of the Industrial Turbines businesses recorded in the interim consolidated financial statements for the half-year ended 30 September 2003.
(4) The interest expense for the half-year ended 30 September 2003 has been reduced by €25 million to take into account the estimated savings generated from the allocation of the €1,792 million net proceeds from disposal of the Industrial Turbines businesses and the T&D Sector to the reimbursement of the net debt at 1 April 2002. The savings on interest expenses recorded in the interim consolidated financial statements for the half-year ended 30 September 2003 following the reception of €842 million (net of the €125 million escrow account) have been restated.
(5) The €54 million deferred tax charge recorded into the interim consolidated financial statements as at 30 September 2003 related to net result from the disposal the Industrial Turbines businesses has been cancelled. A reduction of the deferred tax assets of €9 million has also been recorded relating to the estimated interest savings mentioned above.

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**Note 4 Reconciliation of the consolidated balance sheets between the published and the pro forma consolidated financial statements at 31 March 2003 and 30 September 2003**

***(a) Reconciliation between published consolidated balance sheet and pro forma consolidated balance sheet at 31 March 2003***

| | At 31 March 2003 Published | Disposal of Industrial Turbines businesses(1) | Disposal of T&D sector (excluding Power Conversion)(2) | Pro forma adjustments | At 31 March 2003 Pro forma |
|---|---|---|---|---|---|
| | | | **(in  million)** | | |
| **ASSETS** | | | | | |
| Goodwill, net | 4,440 | (379) | (428) | | 3,633 |
| Other intangible assets, net | 1,168 | (164) | | | 1,004 |
| Property, plant and equipment, net | 2,331 | (146) | (328) | | 1,857 |
| Equity method investments and other investments, net | 245 | | | | 245 |
| Other fixed assets, net | 1,294 | | (14) | 125(3) | 1,405 |
| **Fixed assets, net** | **9,478** | **(689)** | **(770)** | **125** | **8,144** |
| **Deferred taxes** | **1,831** | | **(96)** | **(93)(4)** | **1,642** |
| Inventories and contracts in progress, net | 4,608 | (504) | (569) | | 3,535 |
| Trade receivables, net | 4,855 | (292) | (819) | 238 | 3,982 |
| Other accounts receivables, net | 2,265 | (79) | (139) | | 2,047 |
| **Current assets** | **11,728** | **(875)** | **(1,527)** | **238** | **9,564** |
| **Short term investments** | **142** | | | | **142** |
| **Cash and cash equivalents** | **1,628** | **(51)** | | | **1,577** |
| **TOTAL ASSETS** | **24,807** | **(1,615)** | **(2,393)** | **270** | **21,069** |
| **LIABILITIES** | | | | | |
| **Shareholders equity** | **758** | **(869)** | **(948)** | **1,882** | **823(6)** |
| **Minority interests** | **95** | | **(23)** | | **72** |
| **Provisions for risks and charges** | **3,698** | **(55)** | **(223)** | | **3,420** |
| **Accrued pension and retirement benefits** | **972** | **(34)** | **(113)** | | **825** |
| **Financial debt** | **6,331** | **(2)** | **17** | **(1,612)(5)** | **4,734** |
| **Deferred taxes** | **37** | **(1)** | | | **36** |
| Customers deposits and advances | 3,541 | (217) | (227) | | 3,097 |
| Trade payables | 4,629 | (193) | (338) | | 4,098 |
| Accrued contract costs and other payables | 4,746 | (244) | (538) | | 3,964 |
| **Current liabilities** | **12,916** | **(654)** | **(1,103)** | | **11,159** |
| **TOTAL LIABILITIES** | **24,807** | **(1,615)** | **(2,393)** | **270** | **21,069** |

(1) Reversal of the Industrial Turbines businesses contribution at 31 March 2003.
(2) Reversal of the T&D sector contribution, excluding the Power Conversion business, at 31 March 2003.
(3) Reflects the escrow account of 125 million held by the buyer as part of the disposal of the Industrial Turbines businesses.
(4) Reflects the reduction of the deferred tax assets following the utilisation as part of the disposal of the Industrial Turbines businesses, the recognition of estimated interest savings and the Industrial Turbines businesses disposal related costs.
(5) Reflects:
- the proceeds from the disposal of the Industrial Turbines businesses and the T&D sector (excluding the Power Conversion business) for 1,792 million .

- the estimated interest expenses saved for 77 million .
- the costs related to the disposal of the Industrial Turbines businesses for (19) million .
- the reimbursement of the outstanding amount of sale of trade receivables of the disposed activities at 1 April 2002 for (238) million

(6) The reconciliation of the shareholders equity between the published and pro forma consolidated financial statements at 31 March 2003 is the following :

| | |
|---|---|
| **Published shareholders equity at 31 March 2003** | **758** |
| Cancellation of the net income of the T&D Sector (excluding Power Conversion ) and Industrial Turbines businesses | (62) |
| Recognition of the estimated result on disposal, net of tax effects and related costs | 82 |
| Recognition of the estimated interest savings, net of tax effects | 50 |
| Change in currency translation adjustment | (5) |
| **Pro forma shareholders equity at 31 March 2003** | **823** |

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***(b) Reconciliation between the published consolidated balance sheet and the pro forma consolidated balance sheet at 30 September 2003***

| | At 30 September 2003 Published | Disposal of Industrial Turbines businesses[5] | Disposal of T&D sector (excluding Power Conversion)[1] | Pro forma Adjustments | At 30 September 2003 Pro forma |
|---|---|---|---|---|---|
| | | | **(in  million)** | | |
| **ASSETS** | | | | | |
| Goodwill, net | 3,931 | | (408) | | 3,523 |
| Other intangible assets, net | 974 | | | | 974 |
| Property, plant and equipment, net | 1,940 | (9) | (306) | | 1,625 |
| Equity method investments and other investments, net | 249 | | | | 249 |
| Other fixed assets, net | 1,239 | | (17) | | 1,222 |
| **Fixed assets, net** | **8,333** | **(9)** | **(731)** | | **7,593** |
| **Deferred taxes** | **1,884** | | **(105)** | **(48)[2]** | **1,731** |
| Inventories and contracts in progress, net | 3,744 | (21) | (509) | | 3,214 |
| Trade receivables, net | 4,686 | (14) | (929) | 238 | 3,981 |
| Other accounts receivables, net | 2,602 | (2) | (169) | | 2,431 |
| **Current assets** | **11,032** | **(37)** | **(1,607)** | **238** | **9,626** |
| **Short term investments** | **98** | | | | **98** |
| **Cash and cash equivalents** | **1 671** | | | | **1,671** |
| **TOTAL ASSETS** | **23,018** | **(46)** | **(2,443)** | **190** | **20,719** |
| **LIABILITIES** | | | | | |
| **Shareholders equity** | **183** | | **(892)** | **1 004** | **295(4)** |
| **Minority interests** | **94** | | **(22)** | | **72** |
| **Provisions for risks and charges** | **3,500** | **(2)** | **(208)** | | **3,290** |
| **Accrued pension and retirement benefits** | **937** | | **(115)** | | **822** |
| **Financial debt** | **6,076** | | **(137)** | **(814)[3]** | **5 125** |
| **Deferred taxes** | **55** | | **(1)** | | **54** |
| Customers deposits and advances | 3 085 | (4) | (301) | | 2,780 |
| Trade payables | 4 132 | (15) | (359) | | 3,758 |
| Accrued contract costs and other payables | 4 956 | (25) | (408) | | 4,523 |
| **Current liabilities** | **12,173** | **(44)** | **(1,068)** | | **11,061** |
| **TOTAL LIABILITIES** | **23,018** | **(46)** | **(2,443)** | **190** | **20,719** |

(1) Reversal of the T&D sector contribution, excluding the Power Conversion business at 31 March 2003.

(2) Reflects the reduction of the deferred tax assets following the utilisation as part of the disposal of the Industrial Turbines businesses, the recognition of estimated interest savings and the Industrial Turbines businesses disposal related costs.

(3) Reflects:

- the proceeds from the disposal of the T&D sector (excluding Power Conversion) for 950 million
- the estimated interest expense saved for 102 million over a 18 month period
- the reimbursement of the outstanding amount of sale of trade receivables of the disposed activities at 1 April 2002 for (238) million

(4) The reconciliation of the shareholders equity between published and pro forma consolidated financial statements at 30 September 2003 is the following :

| | |
|---|---|
| **Published shareholders equity at 30 September 2003** | **183** |
| Cancellation of net income (loss) from the T&D Sector (excluding Power Conversion) and Industrial Turbines businesses ((62) at 31 March 2003 and 8 million at 30 September 2003) | (54) |
| Recognition of the estimated interest savings, net of tax effect. (102 of interests and (36) million of tax effects) | 66 |
| Adjustment of the estimated result on disposal, net of tax and related costs (82 million at 31 March 2003; 19 million at 30 September 2003) | 101 |
| Change in currency translation adjustment | (1) |
| **Pro forma shareholders equity at 30 September 2003** | **295** |

(5) Reversal of the contribution of a US entity not yet sold at 30 September 2003. The buyer has a firm purchasing option on this entity.

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**Note 5 Reconciliation of the consolidated statements of cash flows between the published and the pro forma consolidated financial statements for the year ended 31 March 2003 and the half-year ended 30 September 2003**

***(a) Reconciliation between the published consolidated statement of cash flows and the pro forma consolidated statement of cash flows for the year ended 31 March 2003***

| | Year ended 31 March 2003 Published | Disposal of Industrial Turbines businesses[1] | Disposal of T&D sector (excluding Power Conversion)[2] | Pro forma adjustments | Year ended 31 March 2003 Pro forma |
|---|---|---|---|---|---|
| | | | **(in  million)** | | |
| Net income (loss) | **(1,432)** | **(31)** | **(31)** | **132**[3] | **(1,362)** |
| Minority interests | 15 | | (3) | | 12 |
| Depreciation and amortisation | 754 | (57) | (93) | | 604 |
| Changes in provision for pension and retirement benefits, net | 22 | (4) | (3) | | 15 |
| Net (gain) loss on disposal of fixed assets and investments | (19) | 1 | (21) | (148) | (187) |
| Share in net income (loss) of equity investees (net of dividends received) | (3) | | | | (3) |
| Changes in deferred tax | (424) | | 10 | 93 | (321) |
| **Net income after elimination of non cash items** | **(1,087)** | **(91)** | **(141)** | **77** | **(1,242)** |
| Decrease (increase) in inventories and contracts in progress, net | 415 | | (74) | | 341 |
| Decrease (increase) in trade and other receivables, net | 650 | (27) | (40) | | 583 |
| Increase (decrease) in sale of trade receivables, net | (661) | 66 | 66 | (238) | (767) |
| Increase (decrease) in contract related provisions | 160 | 1 | 48 | | 209 |
| Increase (decrease) in other provisions | (49) | | (1) | | (50) |
| Increase (decrease) in restructuring provisions | (29) | (1) | 12 | | (18) |
| Increase (decrease) in customers deposits and advances | (98) | 77 | 20 | | (1) |
| Increase (decrease) in trade and other payables, accrued contract costs and accrued expenses | 162 | (34) | 48 | | 176 |
| **Changes in net working capital** | **550** | **82** | **79** | **(238)** | **473** |
| **Net cash provided by (used in) operating activities** | **(537)** | **(9)** | **(62)** | **(161)**[4] | **(769)** |
| Proceeds from disposals of property, plant and equipment | 252 | (16) | (8) | | 228 |
| Capital expenditures | (410) | 24 | 61 | | (325) |
| Decrease (increase) in other fixed assets, net | (55) | | 5 | | (50) |
| Cash expenditures for acquisition of investments, net of net cash acquired | (166) | | (7) | | (173) |
| Cash proceeds from sale of investments, net of net cash sold | 38 | (47) | (5) | 1,773 | 1,759 |
| **Net cash provided by (used in) investing activities** | **(341)** | **(39)** | **46** | **1,773**[5] | **1,439** |
| Capital increase | 622 | | | | 622 |

| | | | | | |
|---|---|---|---|---|---|
| Dividends paid including minorities | (1) | | | | (1) |
| **Net cash provided by (used in) financing activities** | **621** | | | | **621** |
| Net effect of exchange rate | (41) | | (10) | | (51) |
| Other changes | (464) | (1) | 9 | | (456) |
| **Decrease (increase) in net debt** | **(762)** | **(49)** | **(17)** | **1,612** | **784** |
| **Net debt at the beginning of the period** | **(3,799)** | | | | **(3,799)** |
| **Net debt at the end of the period** | **(4,561)** | **(49)** | **(17)** | **1,612** | **(3,015)** |

(1) Effects of the deconsolidation at 1 April 2002 of the Industrial Turbines businesses.
(2) Effects of the deconsolidation at 1 April 2002 of the T&D sector excluding the Power Conversion business.
(3) See Note 3 (a) (3) (4) (5) of the pro forma consolidated financial statements.
(4) The net cash used in operating activities reflects the estimated interest savings of €77 million, decreased by the reimbursement of the outstanding amount of sale of trade receivables of the disposed activities at 1 April 2002 for €(238) million.
(5) The net cash provided by investing activities reflects the proceeds from the disposal of the Industrial Turbines business and the T&D sector (excluding the Power Conversion business) for €1,792 million net of related costs.

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***(b) Reconciliation between the published consolidated statement of cash flows and the pro forma consolidated statement of cash flows for the half-year ended 30 September 2003***

| (in € million) | Half-year ended 30 September 2003 Published | Disposal of Industrial Turbines businesses[1] | Disposal of T&D sector (excluding Power Conversion)[2] | Pro forma Adjustments | Half-year ended 30 September 2003 Pro forma |
|---|---|---|---|---|---|
| | | | (in € million) | | |
| **Net income (loss)** | **(624)** | **(2)** | **10** | **35**(3) | **(581)** |
| Minority interests | 2 | | (1) | | 1 |
| Depreciation and amortisation | 337 | (12) | (44) | | 281 |
| Changes in provision for pension and retirement benefits, net | 47 | | (5) | | 42 |
| Net (gain) loss on disposal of fixed assets and investments | (91) | | 2 | 35 | (54) |
| Share in net income (loss) of equity investees (net of dividends received) | | | | | |
| Changes in deferred tax | (77) | | 2 | (45) | (120) |
| **Net income after elimination of non cash items** | **(406)** | **(14)** | **(36)** | **25** | **(431)** |
| Decrease (increase) in inventories and contracts in progress, net | 319 | (2) | (27) | | 290 |
| Decrease (increase) in trade and other receivables, net | (355) | 148 | 161 | | (46) |
| Increase (decrease) in sale of trade receivables, net | (144) | | | | (144) |
| Increase (decrease) in contract related provisions | (262) | (5) | 33 | | (234) |
| Increase (decrease) in other provisions | 33 | | | | 33 |
| Increase (decrease) in restructuring provisions | 137 | | (15) | | 122 |
| Increase (decrease) in customers deposits and advances | (221) | (14) | (73) | | (308) |
| Increase (decrease) in trade and other payables, accrued contract costs and accrued expenses | 168 | (57) | 16 | | 127 |
| **Changes in net working capital** | **(325)** | **70** | **95** | | **(160)** |
| **Net cash provided by (used in) operating activities** | **(731)** | **56** | **59** | **25**(4) | **(591)** |
| Proceeds from disposals of property, plant and equipment | 166 | (31) | | | 135 |
| Capital expenditures | (105) | 32 | 23 | | (50) |
| | 145 | | 2 | | 147 |

| | | | | | |
|---|---|---|---|---|---|
| Decrease (increase) in other fixed assets, net | | | | | |
| Cash expenditures for acquisition of investments, net of net cash acquired | (3) | | | | (3) |
| Cash proceeds from sale of investments, net of net cash sold | 772 | 47 | (1) | (823) | (5) |
| **Net cash provided by (used in) investing activities** | **975** | **48** | **24** | **(823)[5]** | **224** |
| Capital increase | | | | | |
| Dividends paid including minorities | (2) | | (1) | | (3) |
| **Net cash provided by (used in) financing activities** | **(2)** | | **(1)** | | **(3)** |
| Net effect of exchange rate | 15 | (4) | (4) | | 7 |
| Other changes | (3) | (51) | 76 | | 22 |
| **Decrease (increase) in net debt** | **254** | **49** | **154** | **(798)** | **(341)** |
| **Net debt at the beginning of the period** | **(4,561)** | **(49)** | **(17)** | **1,612** | **(3,015)** |
| **Net debt at the end of the period** | **(4,307)** | | **137** | **814** | **(3,356)** |

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(1) Effects of the deconsolidation at 1 April 2002 of the Industrial Turbines businesses.
(2) Effects of the deconsolidation at 1 April 2002 of the T&D sector excluding the Power Conversion business.
(3) See Note 3 (b) (3) (4) (5) of the pro forma consolidated financial statements.
(4) The net cash provided by operating activities reflects the €25 million estimated interest savings of the period.
(5) The net cash used in investing activities of €823 million reflects the reversal of the proceeds from the disposal of the Industrial Turbines businesses (€842 million) and related costs.

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**Note 6 Pro forma off balance sheet commitments and other obligations**

***a) Off balance sheet commitments***

| | At 31 March | | At 30 September | |
|---|---|---|---|---|
| | 2003 Published | 2003 Pro forma | 2003 Published | 2003 Pro forma |
| | | (in € million) | | |
| Guarantees related to contracts(1) | 9,465 | 9,039 | 8,206 | 7,837 |
| Guarantees related to Vendor financing(2) | 749 | 745 | 643 | 639 |
| Discounted notes receivable | 11 | 11 | 9 | 9 |
| Commitments to purchase fixed assets | 7 | 3 | | |
| Other guarantees | 94 | 88 | 49 | 47 |
| **Total** | **10,326** | **9,886** | **8,907** | **8,532** |

*(1) Guarantees related to contracts*

In accordance with industry practice guarantees of performance under contracts with customers and under offers on tenders are given.

Such guarantees can, in the normal course, extend from the tender period until the final acceptance by the customer, and the end of the warranty period and may include guarantees on project completion, of contract specific defined performance criteria or plant availability.

The guarantees are provided by banks or surety companies by way of performance bonds, surety bonds and letters of credit and are normally for defined amounts and periods.

The Group provides a counter indemnity to the bank or surety company.

The projects for which the guarantees are given are regularly reviewed by management and when it becomes probable that payments pursuant to performance guarantees will require to be made accruals are recorded in the Consolidated Financial Statement at that time.

Guarantees given by parent or group companies relating to liabilities included in the consolidated accounts are not included.

*(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 total vendor financing is not significantly impacted by the disposal of the T&D sector (excluding the Power Conversion business) and the Industrial Turbines businesses.

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***b) Capital and operating lease obligations***

| | As at 31 March | | As at 30 September | |
|---|---|---|---|---|
| | 2003 Published | 2003 Pro forma | 2003 Published | 2003 Pro forma |
| | (in  million) | | | |
| Long term rental(1) | 667 | 667 | 655 | 655 |
| Capital leases obligation(2) | 278 | 230 | 335 | 284 |
| Operating leases(3) | 534 | 446 | 478 | 426 |
| **Total of future payments** | **1,479** | **1,343** | **1,468** | **1,365** |

*(1) 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.

These commitments are in respect of the full lease period and are covered by payments due to the Group from the metro operator.

If this lease was capitalised it would increase long-term assets and long-term debt by 667 million and 655 million at 31 March and 30 September 2003, respectively.

*(2) Capital leases*

If capital leases had been capitalised, it would have had the following effects on the consolidated balance sheets :

| | As at 31 March | | As at 30 September | |
|---|---|---|---|---|
| | 2003 Published | 2003 Pro forma | 2003 Published | 2003 Pro forma |
| | (in  million) | | | |
| Increase of fixed assets, net | 212 | 182 | 244 | 211 |
| Increase of long term financial debt | 216 | 186 | 246 | 213 |
| **Decrease in shareholders equity** | **(4)** | **(4)** | **(2)** | **(2)** |

*(3) Operating leases*

Rent expense was 110 million and 44 million for the published financial statements of fiscal year ended 31 March 2003 and half-year ended 30 September 2003, respectively.

Rent expense was 95 millions and 37 million for the pro forma financial statements of fiscal year ended 31 March 2003 and half-year ended 30 September 2003, respectively.

A number of these operating leases have renewal options.

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**Note 7 Major companies included in the pro forma scope of consolidation**

**Major companies included in the pro forma scope of consolidation at 31 March 2003**

The major companies are selected according to the following criteria :

- holding companies
- sales above 90 million
- Companies which will be sold or which will be less important due to the business disposals are not included in the pro forma scope.

| Companies | Country | Ownership % | Consolidation Method |
|---|---|---|---|
| ALSTOM | France | | Parent company |
| ALSTOM Holdings | France | 100.0 | Full consolidation |
| ALSTOM Gmbh (holding) | Germany | 100.0 | Full consolidation |
| ALSTOM UK Ltd (holding) | United Kingdom | 100.0 | Full consolidation |
| ALSTOM Inc (holding) | United States | 100.0 | Full consolidation |
| ALSTOM NV (holding) | Netherlands | 100.0 | Full consolidation |
| ALSTOM Mexico SA de CV (holding) | Mexico | 100.0 | Full consolidation |
| ALSTOM Espana IB (holding) | Spain | 100.0 | Full consolidation |
| ALSTOM (Switzerland) Ltd | Switzerland | 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 DDF SA | France | 98.8 | Full consolidation |
| ALSTOM Ferroviaria Spa | Italy | 100.0 | Full consolidation |
| ALSTOM K.K. | Japan | 100.0 | Full consolidation |
| ALSTOM LHB GmbH | Germany | 100.0 | Full consolidation |
| ALSTOM Ltd | United Kingdom | 100.0 | Full consolidation |
| ALSTOM Power sro | Czech Republic | 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 Conversion SA France | France | 100.0 | Full consolidation |
| ALSTOM Power Generation AG | Germany | 100.0 | Full consolidation |
| ALSTOM Power Hydraulique | 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 Ltd | Switzerland | 100.0 | Full consolidation |
| ALSTOM Power SA | Spain | 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 Turbinen GmbH | Germany | 100.0 | Full consolidation |
| ALSTOM Power Turbomachines | France | 100.0 | Full consolidation |
| ALSTOM Projects India Ltd | India | 68.5 | Full consolidation |
| ALSTOM Projects Taiwan Ltd | Taiwan | 100.0 | Full consolidation |
| ALSTOM Rail Ltd | United Kingdom | 100.0 | Full consolidation |
| ALSTOM Signalling Inc | United States | 100.0 | Full consolidation |
| ALSTOM Transport SA | France | 100.0 | Full consolidation |
| ALSTOM Transporte SA de CV | Mexico | 100.0 | Full consolidation |
| ALSTOM Transportation Inc | United States | 100.0 | Full consolidation |
| ALSTOM Transporte | Spain | 100.0 | Full consolidation |
| Chantiers de l Atlantique | France | 100.0 | Full consolidation |
| Japan Gas Turbines K.K. | Japan | 60.0 | Full consolidation |
| EUKORAIL Ltd | South Korea | 100.0 | Full consolidation |
| West Coast Traincare | United Kingdom | 76.0 | Full consolidation |

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**Major companies included in the pro forma scope of consolidation at 30 September 2003**

The major companies are selected according to the following criteria:

- Holding companies
- Sales above 90 million in year ended 2003 but excluding companies which had a significant decrease in sales during the six-month period ended September 2003.
- Companies which will be sold or which will be less important due the business disposals are not included in the pro forma scope.

| Companies | Country | Ownership % | Consolidation Method |
|---|---|---|---|
| ALSTOM | France | | Parent company |
| ALSTOM Holdings | France | 100.0 | Full consolidation |
| ALSTOM Gmbh (holding) | Germany | 100.0 | Full consolidation |
| ALSTOM UK Ltd (holding) | United Kingdom | 100.0 | Full consolidation |
| ALSTOM Inc (holding) | United States | 100.0 | Full consolidation |
| ALSTOM NV (holding) | Netherlands | 100.0 | Full consolidation |
| ALSTOM Mexico SA de CV (holding) | Mexico | 100.0 | Full consolidation |
| ALSTOM Espana IB (holding) | Spain | 100.0 | Full consolidation |
| ALSTOM (Switzerland) Ltd | Switzerland | 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 DDF SA | France | 98.8 | Full consolidation |
| ALSTOM Ferroviaria Spa | Italy | 100.0 | Full consolidation |
| ALSTOM K.K. | Japan | 100.0 | Full consolidation |
| ALSTOM LHB GmbH | Germany | 100.0 | Full consolidation |
| ALSTOM Ltd | United Kingdom | 100.0 | Full consolidation |
| ALSTOM Power sro | Czech Republic | 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 Conversion SA France | France | 100.0 | Full consolidation |
| ALSTOM Power Generation AG | Germany | 100.0 | Full consolidation |
| ALSTOM Power Hydraulique | 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 Ltd | Switzerland | 100.0 | Full consolidation |
| ALSTOM Power SA | Spain | 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 Turbinen GmbH | Germany | 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 SA | France | 100.0 | Full consolidation |
| ALSTOM Transporte SA de CV | Mexico | 100.0 | Full consolidation |
| ALSTOM Transportation Inc | United States | 100.0 | Full consolidation |
| ALSTOM Transporte | Spain | 100.0 | Full consolidation |
| Chantiers de l  Atlantique | France | 100.0 | Full consolidation |
| EUKORAIL Ltd | South Korea | 100.0 | Full consolidation |
| West Coast Traincare | United Kingdom | 76.0 | Full consolidation |

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### 1.2.2. Statutory Auditors report on the pro forma financial statements

**Unaudited Pro Forma Financial Information**

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*(Free translation of a French language original prepared for convenience purpose only. Accounting principles and auditing standards and their application in practice vary from one country to another. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than France. In addition, the procedures and practices followed by the statutory auditors in France with respect to such financial statements included in a prospectus may differ from those generally accepted and applied by auditors in other countries. Accordingly, the French financial statements and the auditors report of which a translation is presented in this document for convenience only are for use by those knowledgeable about French accounting procedures, auditing standards and their application in practice.)*

**Independent Auditors Report on the**

**Pro Forma Consolidated Financial Statements**

**Periods from 1 April 2002 to 31 March 2003 and from 1 April 2003 to 30 September 2003**

To the Chairman of the Board of Directors

You have asked us to examine the pro forma financial statements covering the periods from 1 April 2002 to 31 March 2003 and from 1 April 2003 to 30 September 2003, attached to this present report, prepared due to the disposal of the first tranche on 30 April 2003 and the second tranche on 31 July 2003 of the Small and Medium Industrial Gas Turbines and Industrial Steam Turbines to Siemens and to the conclusion on 25 September 2003 of a binding agreement to dispose the T&D Sector (excluding the Power Conversion business) to Areva, as if those disposals had occurred as of 1 April 2002.

The pro forma consolidated financial statements are the responsibility of the Chairman of the Board of Directors and have been prepared on 14 November 2003 from:

the interim consolidated financial statements covering the period from 1 April 2003 to 30 September 2003, which have been reviewed by us in accordance with professional standards applicable in France. These standards require that we perform limited procedures, to obtain a moderate assurance, which is less than obtained in an audit, as to whether the interim consolidated financial statements are free of material misstatement. We have made the following matters of emphasis in our review report on these accounts:

*The accompanying interim consolidated financial statements have been prepared assuming that ALSTOM will continue as a going concern. ALSTOM has incurred significant operating losses and a high level of indebtedness as a result of which its ability to meet its financial needs depends on the successful execution of its action plans. In the framework of these action plans and as explained in Note 19, ALSTOM has reached an agreement with its banks and the Republic of France which implementation depends on certain future events described in Notes 19 and 14. The accompanying interim consolidated financial statements do not include any adjustment on assets and liabilities valuation, in particular goodwill, other intangible assets and deferred tax assets that are included in the balance sheet as of 30 September 2003 for respectively 3,931, 974 and 1,884 million euros (see Notes 7, 8 and 6), that may eventually result from a negative outcome of the uncertainty on going concern generated by the elements described above.*

In addition, beyond the positive implementation of action plans and as presented in Note 6, maintaining deferred tax assets in the balance sheet depends on ALSTOM capacity to generate sufficient levels of taxable profit in the following years.

the consolidated financial statements for the year-ended 31 March 2003, approved by the Board of Directors, modified on proposal of the Board of Directors on 2 July 2003 and adopted by the Annual General Meeting of the same day, and which have been subject, by us to an audit performed in accordance with professional

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standards applicable in France. Those standards require that we perform procedures, to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. In our opinion, the consolidated financial statements give a true and fair view of the financial position and the assets and liabilities of the Group as at 31 March 2003 and the results of its operations for the year then ended in accordance with rules and accounting principles generally accepted in France. Without qualifying our opinion, we have made the following matter of emphasis:

*We draw attention to the Note 1(b) Basis of preparation of the consolidated accounts which highlights the fundamental principles, the main assumptions and certain additional matters used by the Board of Directors to approve the consolidated accounts.*

In our supplementary report to our report dated 14 May 2003, dated 2 July 2003, without qualifying our opinion, we have made the following observations:

*We draw attention to the main modifications to the consolidated accounts approved on 13 May 2003 by the Board of Directors: Compared to the accounts approved on 13 May 2003, the principal changes are a reduction of shareholders equity from 805m to 758m, an increase of the loss of the year from 1 381m to 1,432m and a reduction of the operating result of Transport Sector from 49m (positive) to 24m (negative).*

*We draw attention to the fact that in his presentation of 2 July 2003 to the Annual Shareholders Meeting, the Chairman updated the shareholders on the action plan related to the indebtedness, financing and progress made on the asset disposal plan of the Company. The successful completion of this plan is essential to the debt reduction programme. We have indicated that if these plans were to suffer from a significant, unfavourable outcome, which the Company does not expect, the application of accounting principles generally applicable where the going concern principle is applicable might no longer be appropriate.*

We performed a review of the pro-forma financial statements in accordance with accounting standards applicable in France. These standards require an assessment of the procedures implemented for selecting the accounting conventions and preparing the reconstituted pro formas, the pro forma financial statements and for performing of tests to assess whether the conventions used are consistent, to determine how they are reflected in the figures and to ensure that the accounting methods used are compatible with those followed for drawing up ALSTOM s consolidated financial statements as at 31 March 2003 and its interim consolidated financial statements as at 30 September 2003.

The pro forma financial statements are intended to express how a given transaction or event would effect the historical financial information prior to the date on which the transaction or event actually occurred. However, they are not necessarily representative of the financial position or performance which would have been observed if the transaction or event had occurred on a date previous to its actual or foreseen occurrence.

In our opinion, the conventions used constitute a reasonable basis for presenting the effects of the disposal of the Small and Medium gas turbines and Industrial turbines to Siemens and of the disposal of the Transmission & Distribution Sector (except the Power Conversion Business) to Areva in the pro forma financial statements covering the period from 1st April 2002 to 31 March 2003 and from 1st April 2003 to 30 September 2003. The figures are appropriate and the accounting methods used are consistent with those followed in preparing the consolidated financial statements as at 31 March 2003 and the interim consolidated financial statements as at 30 September 2003.

Neuilly-sur-Seine France, 17 November 2003

The Independent Auditors

| BARBIER FRINAULT & AUTRES<br>Gilles Puissochet | DELOITTE TOUCHE TOHMATSU<br>Alan Glen |
| --- | --- |

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**1.3 Consolidated financial statements at 31 March 2003**

**1.3.1. Presentation of the amended consolidated financial statements as approved by the Ordinary and Extraordinary Shareholders General Meeting held on 2 July 2003**

Following receipt of letters alleging accounting improprieties on a railcar contract ALSTOM launched an internal review in Hornell, the New York facility of ALSTOM Transportation Inc. (ATI), a US subsidiary of ALSTOM where the contract are executed. This internal review, assisted by external lawyers and accountants, has identified a significant understatement of losses in ATI s accounts. This understatement is in substantial part due to accounting improprieties related to non recognition of realised costs, of which certain were about to be transferred on other contracts, and also an underestimation of forecasted costs on the contract. The concerned contracts were concluded at a fixed sale price, so ALSTOM s customers have not suffered any financial damage. Those events were subject to a press release on 30 June 2003. Additional informations are included in the Management and Discussion analysis on interim consolidated financial statements at 30 September 2003 Section 1.1.1. and Claims and litigations Section 3.2. .

The Ordinary and Extraordinary Shareholders General Meeting held on 2 July 2003 approved the amendments to the consolidated financial statements for fiscal year ended 31 March 2003 which include an additional expense after tax of  51 million.

The General Meeting also approved the amendments to the Operating and Financial Review and Prospects approved by the Board of Directors held on 13 May 2003, to take into account the events known at that date.

The supplementary statutory auditors report on statutory and consolidated financial statements, which is additional to statutory auditors report from page 91 of the Document de Référence, is included in annex 1 to this update.

The consolidated financial statements at 31 March 2003 including the amendments proposed by the Board of Directors and approved by Ordinary and Extraordinary Shareholders Meeting held on the 2 July 2003 are included in their entirety in annex 1 to this update.

The amended Operating and Financial Review and Prospects is included in its entirety in annex 2 to this update.

Moreover, the following pages of the Document de Référence have been updated to take into account modifications of the consolidated financial statements :

*Chairman & CEO s message (page 2 of the Document de Référence)*

In the first sentence, the unprecedented  1.38 billion net loss has been replaced by the unprecedented  1.43 billion net loss .

In the third paragraph, line 3, the significant net loss of  1.38 billion has been replaced by the significant net loss of  1.43 billion .

*Description of activities (page 27 of the Document de Référence)*

In the first table, in the line corresponding to operating income in million of euros for the fiscal year ended 31 March 2003 49 has been replaced by (24) .

*Risks Main risk factors (page 151 of the Document de Référence)*

4th paragraph, 1st line, At 31 March 2003, we had  3,631 million of provisions for risks and charges has been replaced by At 31 March 2003, we had  3,698 million of provisions for risks and charges .

Those amended pages are included in annex 3 to this update.

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Finally, the following corrections are underlined in annex 3 :

*Comparable figures : see table of comparable figures, page 4 of annex 3.*

*Working capital : see page 5 of annex 3.*

**1.3.2. Summary of differences between Accounting Principles followed by the Group and US GAAP**

The Note 33 mentioned below is included in the Annual report on form 20-F at 31 March 2003 available on the Group s web site.

The Consolidated financial statements have been prepared in accordance with the generally accepted accounting principles described in Note 2 above ( French GAAP ) which differ in certain significant respects from those applicable in the United States of America ( US GAAP ). These differences relate mainly to the items which are described below and which are summarized in the following tables. Such differences affect both the determination of net income and shareholders equity, as well as the classification and format of the consolidated financial statements. Certain reclassifications have been made to prior years amounts to conform to the current year presentation.

French law stipulates that annual financial statements are final once they have been approved by the Board of Directors and the General Meeting of shareholders, and that, from then, they can not be modified.

ALSTOM s annual report on form 20-F has been filed with the Securities and Exchange Commission on 15 October 2003 while the French financial statements have been approved by the General Meeting of shareholders held on 2 July 2003. The US GAAP rules require that companies take into account events occurred or changes of assumption decided after the approval of accounts, if they are material and give additional information on an existing situation at the date of closing.

ALSTOM has identified at the end of July 2003, on the basis of project reviews updated at this date, an increase in costs to complete certain contracts in the Transport Sector for € 56 million after tax effect. This increase due to additional information related to an existing situation at closing date, had to be taken into account in the 20-F.

According to Securities and Exchange Commission rules, this increase of costs to complete these contracts was taken into account through a modification of primary accounts, as disclosed in the 20-F.

As stipulated in French law, this change in assumption of costs to complete certain contracts subsequent to the General Meeting which approved the annual consolidated financial statements filed with the Tribunal de Commerce, affected the net loss published under French GAAP for the half-year ended 30 September 2003.

**A) Items affecting net income (loss) and shareholders equity**

**(a) Business combinations Acquisition of ABB ALSTOM Power Power**

As described in Note 7, the Group finalized its acquisition of ABB s 50% shareholding in ABB ALSTOM Power (re-named the Power Sector) on 11 May 2000. Up to that date, the Group consolidated by the proportionate consolidation method its 50% share in Power under French GAAP. From 11 May 2000 the results of Power are fully consolidated in French GAAP. Under US GAAP, Power would have been accounted for as an equity method investment until 11 May 2000, at which time full consolidation would begin.

***March 2001 purchase accounting***

For the year ended 31 March 2001, the Group recorded various adjustments under French GAAP in connection with its acquisition of ABB s 50% shareholding in Power and the related purchase price allocation. These adjustments reflected the Group s estimate of the fair value of the assets and liabilities acquired and, under French GAAP, such adjustments were recorded as part of the purchase price allocation process and created additional goodwill to be amortized in future years.

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Under US GAAP, certain of these adjustments did not meet the criteria for recognition as purchase price allocation adjustments. The Group identified the period in which events or changes in conditions occurred that resulted in a different estimation of the value of certain assets and liabilities.

Specifically, the Group determined whether the income statement charges to be recorded existed before or after the 11 May 2000 acquisition date. Income statement adjustments recorded prior to 11 May 2000 are reflected in the consolidated financial statements for the year ended 31 March 2001 based on the Group s previously existing 50% equity interest in Power. Adjustments in respect of the period after 11 May 2000 are recorded in the Group s income statement based on its 100% shareholding in Power.

During the year ended 31 March 2001, and following the consolidation of ABB ALSTOM Power (AAP) starting 11 May 2000, the Group has reversed, under U.S. GAAP, purchase accounting entries that were recognized as such under French GAAP. As a consequence, the Group has recorded an additional charge to the income statement of  1,497 million under U.S. GAAP that was essentially made up of the following:

*Contract provisions*

At 31 March 2001 the preliminary purchase price allocation recorded under French GAAP included accruals for  1,276 million on contract provisions mainly on but not limited to GT24/GT26 gas and steam turbines issues. Under U.S. GAAP, the amount of any necessary adjustments is reported in the period in which the trends, events or changes in operations and conditions occurred. A valuation and estimation of the performance issues and associated performance penalties, warranty and contract liability costs related to those contracts was already previously made by AAP and reflected in the AAP financial statements prior to the acquisition date of the remaining 50 % of AAP.

The contract provisions recorded at both 31 December 1999 and 31 March 2000 (pre acquisition dates) reflected in accordance with SOP 81-1, *Accounting for Performance of Construction-types and certain production-types contracts* the best estimate of the liability based on the information available at that time.

In July 2000, subsequent to the 11 May 2000 acquisition of ABB s 50% stake in AAP, further performance issues with contracts (mainly GT24/GT26) arose following scheduled inspections on some machines. Under U.S. GAAP an adjustment to the provision of contract losses is required to be recognized in the period in which the loss becomes evident pursuant to SOP 81-1. Therefore, the additional contract provisions recorded to reflect the estimated costs that will be incurred are considered a change in estimate subsequent to the 11 May 2000 acquisition date.

Under U.S. GAAP this change in estimate is recorded in the period of the change and therefore the  1,276 million is recorded as a charge in the income statement in the year ended 31 March 2001.

*Write down of certain assets*

As of 31 March 2000, AAP recorded assets of certain pre-contract costs that were capitalized under U.S. GAAP pursuant to SOP 81-1. During the 12-month period ended 31 March 2001 the Group concluded such costs were no longer probable of recovery. Under U.S. GAAP the write off of these pre-contract costs has been charged to the income statement in the 12-month period ended 31 March 2001 for an amount of  13 million. In addition, certain assets including property and equipment and inventories that were written off in French GAAP, hence increasing goodwill, were expensed *for* an amount of  101 million under U.S. GAAP as they were not following the provisions of SFAS 38, *Accounting for Preacquisition Contingencies of Purchased Enterprises.*

*Adjustments to the value of financial instruments*

During the year ended 31 March 2001 contracts in foreign currency signed before July 1999 and contributed by ABB to AAP were cancelled. Such event required that foreign exchange derivatives, which formerly served as hedges of these contractual arrangements be recorded at their market value. For U.S. GAAP, the Group has recorded a charge to income of  68 million reflecting the change in market value of these instruments.

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***March 2002 purchase accounting***

Pursuant to French GAAP requirements, the Group finalized the purchase price allocation of Power prior to 31March 2002, the end of the first fiscal year subsequent to the 11 May 2000 acquisition period.

Under US GAAP, the allocation period defined as being the period required to identify and quantify the assets acquired and the liabilities assumed should usually not exceed one year from the consummation of the business combination. For US GAAP purposes, the purchase price allocation was finalized prior to 11 May 2001 and additional liability adjustments made after with respect to the French GAAP allocation period are recorded in the Group s income statement.

During the year ended 31 March 2002, the Group has recorded an additional charge to the income statement of 453 million under US GAAP made up of accruals on contracts ( 389 million) and other costs which were not considered to be liabilities under US GAAP at 31 March 2001 ( 64 million). For purposes of French GAAP these liabilities were included as a component of the cost of acquisition and charged against goodwill as part of the purchase price allocation at 31 March 2002 and 31 March 2001, respectively. In addition, the Group has reversed a portion of the valuation allowance on deferred tax assets following the implementation of tax planning strategies in Switzerland ( 103 million).

In addition, US GAAP adjustments result in a reduction in goodwill amortization charged for the year ended 31March 2001 and 2002 of  62 million and  87 million, respectively.

In the year ended 31 March 2001, the above described adjustments reduce operating income (loss) by 1,435million. In the year ended 31 March 2002, the operating income (loss) is reduced by  366 million and deferred tax income increased by  103 million.

At 31 March 2001, the above described adjustments reduce goodwill, net by  1,321 million, deferred tax assets by  21 million, shareholders equity by  1,277 million (net of  158 million positive tax effect) and provisions for risks and charges by  65 million.

At 31 March 2002, the above described adjustments reduce goodwill, net by  1,419 million and shareholders equity by  1,419 million (net of  279 million positive tax effect).

**(b) Impairment**

***Impairment of goodwill***

In the Group s consolidated financial statements prepared under French GAAP, goodwill is generally amortized over its estimated life, not to exceed 20 years.

Under US GAAP, the Group has evaluated its existing goodwill relating to prior business combinations and has determined that an adjustment or reclassification to intangible assets as of 31 March 2002 was not required in order to conform to the new criteria in SFAS 141, *Business Combinations*.

Beginning 1 April 2002, the Group adopted SFAS 142, *Goodwill and Other Intangible Assets*. As a result, goodwill is no longer amortized. Instead the Group periodically evaluate goodwill for recoverability.

Goodwill is also evaluated whenever events and changes in circumstances suggest that the carrying amount may not be recoverable from its estimated future cash flows. Upon adoption, the Group established reporting units based on its current reporting structure. Goodwill was assigned to the reporting units, as well as other assets and liabilities, to the extent that they relate to the reporting unit. The first step of the goodwill impairment test was completed on adoption and as at 31 March 2003, the annual testing date, the Group has determined that no potential goodwill impairment exists. As a result, the Group did not recognize transitional impairment loss in fiscal year 2003 in connection with the adoption of SFAS 142.

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The goodwill impairment test is based on fair value and performed at reporting unit level which is either operating segments (Sectors) or one level below (Businesses).

Other intangible assets recorded by the Group have a finite useful life.

The first application of SFAS 142 for the year-ended 31 March 2003 was to increase net income (loss) as a result of non amortization of goodwill by  284 million.

***Impairment of long-lived assets (other than Goodwill)***

Under US GAAP, the Group reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If these events or changes in circumstances indicate that such amounts could not be recoverable, the Group estimates the future cash flows expected to result from the use of the asset and its eventual disposal. If the sum of the undiscounted future cash flows is less than the carrying amount of the asset, the Group recognizes an impairment loss for the difference between the carrying value of the asset and its fair value. At 31 March 2002, as described in Note 33(A) (m) the Group has recorded an impairment under US GAAP related to the Cruiseinvest Cruise ships.

**(c) Restructuring**

Until 31 December 2002, the Group accounted for the restructuring liabilities when restructuring programs have been finalized and approved by management and have been announced before the closing date. With this respect, the Group applies EITF 94-3, EITF 95-3, SFAS 88 and SFAS 112 for the purposes of preparing the US GAAP reconciliation.

Starting 1 January 2003, the Group applied prospectively and for all new plans initiated after this date SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement requires that a liability for costs associated with exit or disposal activities to be recognized at fair value when the liability is incurred rather than at the date an entity commits to a plan of restructuring.

The table below reconciles the restructuring expense as determined under French and US GAAP, before tax effects.

| | Year ended 31 March | | |
|---|---|---|---|
| | 2001 | 2002 (in  million) | 2003 |
| **French GAAP income statement expense (Note 4)** | **80** | **227** | **268** |

| | | | |
|---|---|---|---|
| Adjustments required for US GAAP purposes: | | | |
| New plan provisions and adjustments to prior year estimates[(1)] | 158 | 15 | 4 |
| Costs charged against goodwill under French GAAP[(2)] | 112 | 64 | 11 |
| **Impact on income of US GAAP restatement (before goodwill amortization)** | **270** | **79** | **15** |
| **US GAAP income statement expense (before goodwill amortization)*** | **350** | **306** | **283** |
| Impact on goodwill amortization[(2)] | (11) | (9) | |
| **US GAAP income statement expense** | **339** | **297** | **283** |

* of which impact of the discontinued operations is  69 million,  85 million and  91 million for the years-ended 31 March 2001, 2002 and 2003, respectively.

(1)(2) Note references are to the notes to the table below.

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The table below details the pre-tax impact of restructuring adjustments on shareholders equity pursuant to US GAAP.

| | At 31 March | | |
|---|---|---|---|
| | 2001 | 2002 | 2003 |
| | | **(in  million)** | |
| **Provisions per US GAAP** | **186** | **163** | **138** |
| Provisions per French GAAP (Note 18) | 285 | 178 | 138 |
| **Difference between U.S. and French GAAP provisions** | **99** | **15** | |
| Restructuring costs charged against goodwill under French GAAP and which do not qualify under EITF 95-3[2] | (70) | (11) | |
| **Cumulative adjustment on new plan provisions and adjustment on prior estimates[1]** | **29** | **4** | |
| Cumulative costs originally charged against goodwill (French GAAP) and subsequently expensed under US GAAP[2] | (245) | (309) | (320) |
| Effect of deconsolidation of Contracting and GTRM[3] | | 39 | 39 |
| Cumulative goodwill amortization[2] | 36 | 45 | 45 |
| Cumulative translation adjustment | 4 | 4 | 4 |
| Minority interests | (10) | | |
| **Impact on shareholders equity of US GAAP restructuring restatement** | **(186)** | **(217)** | **(232)** |

(1) Prior to 31 March 2001, under French GAAP, the Group recorded restructuring liabilities during the period when decisions have been approved by the appropriate level of management. Since 1 April 2001, under French GAAP, as disclosed in Note 2(w), the Group records a restructuring liability during the period when the plan is finalized, approved by management and announced before the closing of the financial statements. Under US GAAP, until 31 December 2002, the Group has applied the SFAS 112, *Employer s Accounting for Post Employment Benefits* and Emerging Issues Task Force ( EITF ) No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity* ( EITF 94-3 ) in accounting for its employee redundancy and restructuring costs. Under EITF 94-3, a provision for restructuring can only be recorded during the period when certain conditions are satisfied, including the specific identification and approval by the appropriate level of management of the operations and activities to be restructured, and timely notification to the employees who are to be made redundant. In addition, costs associated with an exit plan are recognized as restructuring provisions only if the related costs are not associated with or do not benefit continuing activities of the Group. The foregoing creates a timing difference between (i) the recording of provisions of French GAAP charges to the extent that such provisions are not accrued for US GAAP purposes, (ii)restructuring charges accrued under US GAAP that were expensed for French GAAP purposes in a prior period, and (iii) changes in estimates on prior year French GAAP provisions that did not qualify for accrual under US GAAP. Starting 1 January 2003, the Group applied prospectively and for all new plans initiated after this date SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement requires that a liability for costs associated with exit or disposal activities to be recognized at fair value when the liability is incurred rather than at the date an entity commits to a plan of restructuring.

(2) For the purpose of the US GAAP reconciliation, the Group has applied EITF No. 95-3 *Recognition of Liabilities in Connection with a Purchase Business Combination* in accounting for restructuring costs associated with businesses it has acquired. As discussed in (1)above, the requirements for recording restructuring costs and liabilities are more strict under US GAAP. Therefore, certain restructuring provisions included in the purchase price allocation related to businesses acquired under French GAAP are not accruable under US GAAP, generating a difference in goodwill and liabilities assumed for restructuring costs charged against goodwill under French GAAP. Certain restructuring charges originally charged against goodwill under French GAAP are subsequently expensed under US GAAP once the US GAAP criteria have been satisfied for recording the costs. Furthermore, a reduction in goodwill amortization results from the US GAAP treatment until 31 March 2002.

(3) During the fiscal year ended 31 March 2002 the Group disposed of its Contracting Sector and GTRM. At the time of the acquisition, the goodwill computed differed by  39 million between French and US GAAP, mainly because of French GAAP restructuring provisions that did not meet the criteria of EITF 95-3 *Recognition of Liabilities in Connection With a Purchase Business Combination* resulting from the lower goodwill under US GAAP. In the year end 31 March 2002 the counterparty effect is an increase of the capital gain of  39 million as reported in Note 33 (n).

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US GAAP additional restructuring disclosures are presented in Note 33 (D) (d).

**(d) Pension, termination and post-retirement benefits defined benefit plans**

The Group determines its costs and accruals in accordance with actuarial techniques compliant with the methodology stated by SFAS 87, *Employers Accounting for Pensions* and SFAS 106, *Employers Accounting for Post Retirement Benefits Other Than Pensions.* Minimum liability adjustments ( MLA ) are not recognized in the Group s financial statements as under French GAAP the recognition of these adjustments is not required.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligation in excess of plan assets are the following: